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April 1991 (First of Two April Issues)

SCHOOL SPENDING AND AUSTERITY

Introduction: Fiscal problems have shifted the education quality emphasis in most states away from expensive measures like smaller class sizes and higher teacher pay. As John Brandl (U. of Minnesota) suggested at the National Conference of State Legislatures' fiscal chairs seminar in January, legislators are looking hard at better ways to use existing resources. One example is the emphasis on toning down state mandates and the roles of state education departments in order to give school districts more autonomy. This theme is being particularly pressed in New Jersey, Virginia, and Wisconsin. There are also many special programs oriented toward the six education goals developed by the governors and the President.

High Impact Education Quality Initiatives: The 1980s saw many examples of what might be called the prototypical state education quality plan. The concept was pioneered in Southern states like Mississippi and South Carolina. It typically involved: (1) a state tax increase to improve education, (2) substantial increases in teacher pay, (3) relatively expensive measures like expanding the school year, increasing the number of students in pre-school, and/or reducing class sizes, (4) management measures such as merit pay or career ladders and training of teachers and administrators, and (5) accountability measures such as teacher and student testing and published measures of comparative performance of schools or school districts.

The concept of these plans isn't dead. Major educational quality programs of this type, complete with large state tax increases, were enacted in Kentucky and Oklahoma in 1990, along with a smaller one directly associated with teacher salary increases in West Virginia. Mississippi adopted such a measure, but legislators and the governor couldn't agree on a funding source. This year, such an increase was adopted in Arkansas with funding from an increased sales tax. A separate plan for vocational education is pending with funding from a corporate income tax hike. There is considerable interest in such a plan in Missouri. In some of the states with thriving economies, such as Idaho and Washington, there have been substantial funding increases and various new quality measures without the necessity for tax increases.

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The most comprehensive of the plans this year is under discussion in Tennessee. Its education component was painstakingly developed through widespread consultation with just about everyone in the state with an interest in education. Its financing would come from adopting an income tax to replace the state's current tax on unearned income (e.g., dividends) but not wages and salaries. The revenues would both finance education improvements and lower existing sales taxes.

Education Financing Initiatives: Much of the interest in education spending this year is heavily oriented to financing matters, not directly on what goes on in the schools. The financing plans often include educational quality components. But their primary motivation relates to: (1) the allocation of money among districts, (2) which taxes are used to pay to education, or (3) both. One example is the increase in the state sales tax and new school aid distribution formula developed in Texas last year to deal with a supreme court decision on school finance equalization. Another is last year's tax increases in New Jersey which financed massive revision of the school aid formula, also to deal with a state supreme court decision on equalization. Both are covered in the equalization article in this issue.

Despite fiscal pressures, these types of financing issues are major components of educational policymaking in many states this year. In Oregon, the subject has been forced on legislators by a voter decision last year to restrict the level of property taxes available for schools. In New Jersey, legislators revised last year's program to take money from school aid, still leaving over a 20% increase, to increase property tax relief, and to reduce mandates for some school districts to increase property taxes. In states with major spending cut proposals on the table, like Massachusetts and Pennsylvania, there are also major school finance issues. They involve both the local authority to tax and how the available state money is divided among districts.

Austerity, School Funding, and School Quality: The austere budget environment of most states has had an understandably chilling effect on new state educational quality initiatives. State officials are reluctant to impose new cost-increasing mandates on local districts without funding the mandates or providing inflation-beating adjustments in overall school aid. Both school administrators and teachers tend to urge funding what already exists as a priority over new initiatives.

Austerity can also make casualties out of previously adopted plans. In fiscally pressed North Carolina, the governor has proposed skipping the scheduled $84 million increase in funding for FY 1992 associated with the education reform program. Georgia continues to have difficulty in funding its Quality Basic Education program. In other states, tight budgets provide an opportunity for teachers and administrators to renew their objections to some of the educational quality items they opposed when they were adopted.

Some of the earlier education reform plans may become casualties of three separate trends. Those plans often involve demonstrations or specific concepts to be adopted statewide as a result of a state decision to improve quality, sometimes backed by special grants. In the current context, such narrow grants and a state education department staff providing guidelines and administering funds are subject to criticism. First, it involves power at the state level rather than the site-based management now popular among educational reformers. Second, it contradicts the increasingly popular rhetoric for local control. Third, it conflicts with austerity-driven notions of letting local officials do the best they can with whatever the state can afford. One result is a plan moving through the Florida legislature, "Blueprint 2000," with a major thrust to eliminate smaller categorical programs. Programs for transportation, health, and instructional categories would be folded into what, at the federal level, would be called a block grant. Mississippi is working along the lines of freeing high-performance districts from state regulation, while Virginia is downsizing its education department staff.

Education Budgets: It is much too early to tell the outcome of the deliberations on FY 1992 budgets for education in the larger states. A common pattern of the late 1980s was an education budget that, as enacted, was more generous than budgets for most other state activities. But the education priority measured this way was often overtaken by large supplemental appropriations for other functions, particularly corrections and Medicaid. This would leave education spending growth below some of those functions, and often below state spending overall. Nonetheless, the result wasn't totally unsatisfactory so long as the state education increase covered changes in pupil counts, covered inflation, and had money left over -- as it often did.

This year, in California and eastern states, the math is not permitting this result without major tax increases. The numbers differ from state to state, but show the same pattern. The FY 1992 revenue growth being projected is in the range of 3-7% (lower in the Northeast) with assumed inflation of about 5%. This 3-7% growth gets lowered a percent or two to deal with covering items financed with one-time revenues or savings in FY 1991 and with deficits carried over overtly or covertly. Out of that growth comes an increase in corrections of 8-13% and an increase in social and health service programs (principally AFDC and Medicaid) of 10% or more. In such a context, aid to local government must be below inflation. In some states (e.g., Minnesota), it is possible to concentrate cuts on non-school aid. But in most states, school aid can't match inflation without massive cuts in other state functions.

The problem is most readily apparent in California because a constitutional amendment (Proposition 98) embodies educators' expectations for: (1) a constant share of the budget devoted to education and (2) education funding reflecting inflation plus growth in the number of pupils. The governor's budget, even with its new taxes,

doesn't comply with the requirement. Legislative action in compliance is difficult as well, particularly if the legislature complies with another constraint in the constitution -- the tax limit.

Teacher Salaries: As a result of these fiscal circumstances, salaries of teachers are not likely to increase as they have in the past decade -- providing inflation plus some real increase. Recognizing th[illegible] many teacher organizations are backing tax increase proposals. The statewide salary comparisons developed by the National Education Association are shown in Table 1.

Table 1: Average Teacher Salaries, FY 1990

Rank	State	Salary	Rank	State	Salary	Rank	State	Salary
1	Alaska	$43,153	17	Virginia	$30,926	34	Tennessee	$27,052
2	Connecticut	40,461	18	Oregon	30,840	35	Maine	26,881
3	New York	38,925	19	Colorado	30,758	36	Iowa	26,747
4	Maryland	36,601	20	Nevada	30,590	37	Kentucky	26,275
5	California	36,418	21	Indiana	30,493	38	Nebraska	25,522
6	Rhode Island	36,057	22	Washington	30,475	39	Alabama	25,[illegible]0
7	Michigan	36,010	23	Arizona	29,402	40	New Mexico	25,120
8	New Jersey	35,676	24	New Hampshire	28,986	41	Montana	25,081
9	Massachusetts	34,175	25	Florida	28,806	42	Mississippi	24,364
10	Delaware	33,37[illegible]	26	Vermont	28,798	43	Louisiana	24,300
11	Pennsylvania	33,338	2[illegible]	[illegible]nsas	28,671	44	Idaho	23,861
12	Illinois	32,794	28	Wyoming	28,188	45	Utah	23,735
13	Minnesota	32,190	29	Georgia	27,892	46	Oklahoma	23,070
14	Hawaii	32,047	30	North Carolina	27,814	47	North Dakota	23,016
15	Wisconsin	31,921	31	Texas	27,496	48	West Virginia	22,842
16	Ohio	31,200	32	Missouri	27,229	49	Arkansas	22,009
	United States	**31,166**	33	South Carolina	27,200	50	South Dakota	21,300

These data on average salaries are good indicators for some purposes but not others. They are a good indicator of a major factor of school costs. They are also a good indicator of the welfare of a state's teachers, to the extent that their welfare can be measured by money. They are a poor indicator of the offers that school districts are making to particular teachers. The average salary reflects the pay schedule for teachers, including the starting salary. But the average is heavily influenced by the maturity of the teaching force. A state with a large number of newly hired teachers, like California or Nevada, will tend to have lower average salaries than a state without enrollment growth and a larger percentage of teachers high on the pay scale.

Pupil-Teacher Ratios: Besides salaries, the other key variable affecting costs per pupil is the pupil-teacher ratio shown on Table 2.

Table 2: Pupils Per Teacher FY 1990

Rank	State	Number	Rank	State	Number	Rank	State	Number
1	California	22.9	18	North Carolina	15.9	34	South Dakota	14.7
2	Utah	22.3	19	Ohio	15.9	35	Virginia	14.7
3	Washington	18.8		**United States**	**15.9**	36	Iowa	14.6
4	Michigan	18.5	20	Florida	15.8	37	North Dakota	14.5
5	Idaho	18.3	21	Georgia	15.8	38	Pennsylvania	14.4
6	Nevada	17.8	22	Indiana	15.8	39	Missouri	14.2
7	Tennessee	17.5	23	Kentucky	15.8	40	West Virginia	14.0
8	Arizona	17.3	24	Maryland	15.7	41	Wyoming	14.0
9	Mississippi	17.3	25	New Mexico	15.4	42	Nebraska	13.9
10	Alabama	17.2	26	Oklahoma	15.2	43	Maine	13.6
11	Hawaii	17.0	27	Texas	15.2	44	Kansas	13.5
12	Oregon	16.9	28	Delaware	15.0	45	Rhode Island	13.2
13	Colorado	16.2	29	Montana	14.9	46	Massachusetts	12.7
14	Louisiana	16.2	30	New Hampshire	14.9	47	Vermont	12.7
15	Arkansas	16.1	31	Wisconsin	14.9	48	Connecticut	12.5
16	Minnesota	16.1	32	Alaska	14.8	49	New Jersey	12.5
17	South Carolina	16.0	33	Illinois	14.8	50	New York	12.3

Austerity And The State Rankings: Many state officials, as well as teachers, have objectives of increasing teacher salaries (e.g., by x% or to x% of a national or regional average) and/or reducing class sizes. Such objectives are often part of education quality plans approved in the 1980s. In many states there are mandates to school districts for minimum salaries and maximum class sizes.

Several developments associated with state finances should reshuffle the rankings in Tables 1 and 2 by the time the statistics for FY 1992 are issued. Education-oriented tax increases should provide major increases for states like Arkansas, Kentucky, New Jersey, Oklahoma, and West Virginia. These actions and the comparative prosperity of some Western and farm states should cause salaries to rise faster and class sizes to drop more in states West of the Mississippi, which generally have trailed the national average in indicators of educational spending.

Some of the states with the highest teacher salaries -- like Connecticut, New York, Michigan, Rhode Island, and Massachusetts -- are suffering some of the nation's most severe fiscal problems. While final decisions haven't been made in these states, there is little likelihood of substantial new state money for schools. Cutbacks are under serious consideration, particularly in Massachusetts and New York, and Michigan is considering a proposal from the governor that would substantially curtail property tax revenues.

THE CORRECTIONS BILL

The Corrections Problem: Fiscal problems have created difficult policy choices for state officials in dealing with corrections. The propensity of the public, as indicated by polls, is to be tough on crime through longer sentences, less plea bargaining, and fewer early releases. The impact of federal officials, as indicated by mandates, is to increase the use of prison terms for dealing with drug abuse and drunken driving. The preference of many state officials is also to be tough on crime. This tends to increase sharply the number of prisoners (see Issue 1) even though crime hasn't been increasing. Litigation by civil rights groups and the federal government is leading to increases in the cost of operating prisons as states comply with court orders to improve conditions. The combination of more prisoners and higher cost per prisoner has been driving corrections costs upwards at double digit rates in many states.

In discussing the fiscal issues involved at NCSL's January fiscal chairs session, James Austin of the National Council on Crime and Delinquency suggested legislators not make major changes in state policy. He warned that an "increasingly impoverished, badly educated population means the criminal population won't be decreasing." But he indicated that newer ideas, such as boot camps and intensive parole, won't necessarily solve corrections problems.

By just about any measure, the United States has a strong tendency to hold people in prison. California alone has more prisoners, 40,000 more, than either Great Britain or Germany. The prison population grew rapidly during the 1980s, while the crime rate was about constant. Some states have nearly twice the population incarcerated as the national average (a 50-state table appears in Issue 1). Yet 70-80% of the population consistently tells pollsters that punishments for crime are not harsh enough. An indication of the growth rates involved will be seen from Table 3.

Table 3: Corrections and Related Populations (000), 1980-1988

Category	1980	1988	Percent Change
Probation	1,118	2,356	111%
Jails	164	344	110
Prison	330	628	90
Parole	220	408	85
Adult Arrests	6,100	8,500	39
Adult Population	162,800	182,600	12
Reported Index Crimes	13,400	13,900	4

Looking For Alternatives To Incarceration: Some states are considering measures that seek to stem the growth in corrections costs while not eroding the objective of making the streets safer. One of the

illustrative spending cuts offered by California's Legislative Analyst is to substitute parole for prison for felons about to be transferred to state prisons from county jails. The Analyst also suggests investing in nonresidential drug treatment for parolees as a way to save future incarceration costs. But on the broader issue of community corrections, the Analyst's issue paper concludes:

> Expenditures to support the state's growing prison and parole populations continue to increase at a rapid rate. In addition, the state currently has a limited range of punishment options for many criminal offenders. One potential way to address this growing population in a more effective way is through "community corrections" programs. This approach involves the use of intermediate sanctions as an alternative to state prisons. In evaluating community corrections programs, the Legislature will have to consider the fiscal benefits, public safety issues, and treatment effectiveness of these programs.
>
> There is some evidence indicating that these programs can be more viable corrections alternatives than state prisons in certain cases. However, this evidence is limited, and there is uncertainty about the overall effectiveness of these programs, especially if applied on a large-scale basis. Consequently, the Legislature should take a cautious, evolutionary approach to the expansion of community corrections programs. Specifically, the state should promote small-scale piloting and experimentation with targeted populations, and undertake evaluations of program effectiveness.

An assessment of the boot camp programs by Doris MacKenzie (National Institute of Justice) finds 17 states now have boot camps for some adult offenders, up from 11 in 1989. Electronic monitoring use is increasing as well. There were 6,500 people in monitoring in 1989, up from under 100 in 1986.

Lowering Prison Staffing: State officials have generally avoided reducing the staffing at correctional institutions even in the midst of government-wide hiring freezes, layoffs, and furloughs. **Reports** knows of only one state, Michigan, that is applying these measures in significant ways to corrections. In Illinois, the governor has proposed delays in opening new prisons.

Sentencing Changes: There appears to be substantial interest in reducing the amount of time certain offenders spend in prison by changes in the sentences convicted offenders serve. For example, Governor Cuomo has proposed to eliminate the automatic incarceration of nonviolent second-time felons. The proposal is linked to hopes that the state can avoid construction of five new prisons.

Paying The Bill: Most state officials are paying the costs despite the pressures doing so puts on other spending. The likely increase in the California corrections budget is around 14% with bond-funded prison construction adding something like $400 million a year. The capacity expansion is associated with a projected increase in prison population from about 100,000 now to 175,000 before the end of the decade. When asked if the state could afford this spending growth, Governor Wilson commented, "Can we afford not to?"

The Texas prison system has about 50,000 beds and already has approvals for adding 15,000. The corrections agency is looking for approval of nearly 40,000 more, well in excess of the governor's budget request which calls for 12,000 over the biennium. Three factors in the increase: (1) growing state population, (2) increased drug enforcement, and (3) reclassification of more than 40 misdemeanors to felonies. Drug sentences are the cause of sharp growth in prison populations in Tennessee, according to its corrections director. The Texas situation, which includes court-ordered constraints on crowding, is producing a rapid flow of parolees -- one fifth of the nation's total.

The Idaho budget calls for a 23% increase in corrections -- though much of it is associated with alternatives to prison incarceration including a boot camp, a community work center, and increasing the parole and probation staff.

Corrections In Florida And Georgia: The difficulties in funding corrections have been particularly evident in Florida and Georgia. Both states have been reluctant to increase taxes while their officials have tried to increase state support of schools sharply. Both states have high incarceration rates. Both states have passed measures to get tough on crime by stiffer sentences for a variety of offenses -- drugs, second offenders, sex-crimes, drunken driving, etc. But prison construction didn't keep up and judicial constraints on prison crowding put a limit on how many prisoners could be put into the available space. So while accelerating movement of persons into prison, these states (and others) had to accelerate movement out by early release programs. In Florida, this means that prisoners now serve about 33% of their sentences, down from 52% four years ago.

Georgia's Governor Harris pushed prison construction in his two terms that ended early this year. His summary of accomplishments on leaving office cited with pride a doubling of prison beds during his terms with enough approved for future construction to create a prison capacity increase of 171%, accompanied by a corresponding increase in state correctional employees. His report included the projections shown in Table 4.

Table 4: Corrections Population In Georgia, 1980-1999

Category	1980	1985	1990	1995	1999
Prison	13,011	16,299	21,584	40,247	56,266
Probation	42,012	89,420	120,835	189,829	277,928
Parole	3,169	7,796	20,602	37,529	59,906

These statistics implied a continuing major drain on the Georgia budget. Yet even the pace of construction over the past eight years has not averted the need to reduce crowding through an early release program that was undertaken in 1989. In his state-of-the-state message, Governor Miller pledged to get rid of early release. He proposed adoption of a "boot camp" approach, particularly for drug offenders, citing as an example the Parris Island boot camp where he was stationed as a Marine.

SELLING ASSETS AND PRIVATIZATION

Introduction: "Privatization" continues to receive attention from those who discuss trying to make government cheaper, including many people who talk about state, as well as federal and local, policies. The lengthy debates (see Technical Notes) are easily summarized. Privatization proponents argue that the private sector can perform some government functions more cheaply and often more efficiently. Opponents contend that the economies are often false or occur only because private contractors pay inadequate wages. They contest the efficiency claims and argue that government as a matter of policy shouldn't contract out some functions, such as disciplining inmates.

In this year's state budget debates, there is some discussion of these kinds of "contracting out" issues, but no obvious trend and not much money at stake. Privatization has attracted more attention where the primary motivation is obtaining money from the sale of assets or avoiding state costs by capital financing through the private sector. The really big money decisions are in the choice between private and public providers in education, mental health, and highways. Major decisions on privatization-type issues in those fields are often considered under other rubrics such as educational choice, tuition and scholarship policy, or community versus institutional mental health.

Contracting Out: The magnitude of the contracting out decisions is illustrated by Connecticut. A $4 million study of saving money in Connecticut government concluded that privatization is an option to be considered and recommended a mechanism for reviewing possible choices. It provided a list of projects totalling $6.2 million in savings, most of which is assumed savings from contracting out for medical care. The other fields are custodial services, laundries, food service,

and $250,000 in savings from relying on the private sector for "mop and mat cleaning service."

These proposals, not all of which may be adopted, reflect the relatively minor nature of many of the contracting out discussions in state government. The issues tend to revolve around services which have counterparts in the private sector, such as food service, computer programming, legal services, and debt collection. While contracting out is discussed as an economy move in some settings, shifting to public provision of services is discussed in others. Example: the continuing concern in Massachusetts over reducing the use of consultants. It has been a hot topic in the legislature and the subject of a barely unsuccessful initiative on the November ballot. There has also been controversy over the use of temporary help from a private agency rather than the use of state employees in Ohio. Last year in New York, a comptroller's report said the state could save millions by doing highway design work in-house rather than contracting it out.

These issues of contracting out operating functions at the state level are minor by comparison with parallel issues at the local level, such as contracting out the refuse collection function. The contracting out issues are also minor relative to broader issues on the financing of facilities and relative reliance on the private sector in health, education, and other fields.

The Private Sector In Corrections: In a recent report on privately run prisons, the General Accounting Office concluded, "existing empirical studies on service and cost are inconclusive." According to GAO, "the state interest in turning over existing facilities to contractors has been limited primarily to selected activities with private counterparts -- health service, food service, laundries -- rather than entire institutions, probably because of perceived problems with eliminating the jobs of current state employees."

Interest in having the private sector finance prisons has been much higher. Although it would be possible to have a company (or state authority) build a prison and lease it to the state for staffing with state employees, most interest has focused on private construction and operation. Proposals of this type are active in many states. There is also some interest in speculative construction of prisons (e.g., by Private Prisons of America in West Virginia) with capacity being sold on a per diem basis to governments needing extra space.

Privatizing Schools: There are many privatization issues in public schools involving ancillary services (e.g., school bus service, maintaining schools, food service) rather than education functions. The major example of privatizing the operation of public schools is the operation of Chelsea schools by Boston University, but it is too early to judge results. Potentially having much more effect are tuition tax

credit plans (Iowa and Minnesota) and choice plans that permit government payment of tuition at private schools (Milwaukee).

Movement from the private sector to the public is illustrated by Hawaii's unique A+ program. Hawaii is the only state to have taken statewide action to deal with latchkey children, those who don't have a parent at home when the school day ends. Now the state is providing an after-school program for these children with components parallel to regular school like tutorials, physical activities, and drama. The program is free for children eligible for special priced meals and costs a maximum of $1 a day for others. One impact is to serve children who wouldn't otherwise be served. Another has been to draw children out of programs like that provided by the YMCA that must charge more to students and pay less to staff.

Private Higher Education: Public subsidy of private providers of education is much more common in higher education than elementary and secondary. Some states contract for student slots in private schools (e.g., Cornell) in specialized programs. Students pay the tuition for state universities with the state making up the difference between what the student pays and what the private institution charges. Many states, as well as the federal government, provide financial aid that students can use in private colleges and universities. The percentage of enrollment in private institutions shown on Table 5 reflects the diversity among the states.

Table 5: Percent Of Enrollment In Private Institutions, FY 1988

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Massachusetts	59.4%	18	Georgia	23.8%	34	Oklahoma	14.2%
2	Rhode Island	54.3	19	North Carolina	22.8	35	Washington	14.1
3	New York	45.1	20	Indiana	22.2	36	Texas	13.6
4	Pennsylvania	45.0		**United States**	**22.0**	37	Virginia	13.6
5	New Hampshire	43.8	21	New Jersey	21.8	38	West Virginia	11.5
6	Vermont	42.7	22	South Carolina	20.9	39	Colorado	11.1
7	Connecticut	39.7	23	Florida	19.8	40	Alabama	10.8
8	Missouri	32.3	24	Kentucky	19.5	41	Arkansas	10.3
9	Utah	32.2	25	Hawaii	19.3	42	Kansas	9.7
10	South Dakota	30.4	26	Nebraska	18.8	43	Mississippi	9.0
11	Maine	29.9	27	Delaware	17.1	44	Montana	8.9
12	Iowa	29.4	28	Maryland	16.4	45	North Dakota	7.6
13	Illinois	27.5	29	Oregon	15.5	46	Alaska	4.9
14	Tennessee	26.7	30	Wisconsin	15.3	47	Arizona	3.4
15	Idaho	24.5	31	Michigan	15.2	48	New Mexico	2.9
16	Minnesota	24.3	32	Louisiana	14.5	49	Nevada	0.6
17	Ohio	24.3	33	California	14.3	50	Wyoming	0

There is a clear regional pattern. Parts of the country settled first already had strong private institutions in place before the trend

to provide public ones developed. They tend to have a large percentage of private enrollment. Western states initiated public higher education before strong private institutions could be established, and have low percentages.

A case can be made that private colleges and universities -- and for that matter elementary and secondary schools -- save tax money by serving students who would otherwise be served at public expense. The national figure for higher education is about $12 billion, derived by multiplying the private students by the appropriations per student at public institutions.

State Policy And Private Higher Education: The diverse state policies that encourage strong private institutions in the states at the top of Table 5 show that much more than "privatizing" a function is involved. In New Hampshire and Vermont, state and private institutions compete as they do in other states, but the state schools have little cost advantage because state subsidies per student are low and tuition is extremely high by national standards. In Massachusetts, the state has refrained from being as tough a competitor as it might be by avoiding the establishment of a major university in the Boston area. The governor's education proposals would close several existing state institutions. In New York, the state institutions provide low-tuition competition in all areas, but the state provides substantial subsidies to the private institutions as well as extensive scholarship and loan programs that students can carry to private schools.

There is continuing controversy between the public and private institutions, particularly over direct state subsidies for the private institutions. Pennsylvania is likely to be a center of the controversy this year. The governor's budget seeks roughly level funding for public institutions while proposing cuts in the 30-60% range for the 11 private institutions receiving state aid. For example, the University of Pennsylvania (a private Ivy League institution) would lose about $19 million out of $38 million. Its officials blame the state budget for their plan to hike an already scheduled increase in tuition and to lay off faculty.

Privatizing Health: The shift in paying for hospital care through third party reimbursements (e.g., Medicaid) continues to encourage the shift of hospitals from the public sector to private or private not-for-profit status. This trend affects state governments directly in only a few cases (e.g., Louisiana and Mississippi) for general hospitals but seems to be indirectly affecting decisions on mental health institutions and university teaching hospitals. Several states have hospital closing issues as part of their budget process this year.

Other Privatization: Governor Voinovich recently proposed that Ohio get out of the liquor store business, generating $45 million in the next biennium in the process. The move would affect 1,100 workers who staff about 260 state-run stores. They would shift to privately

managed facilities similar to the 138 "agency stores" now serving less populated areas. In New Jersey, Governor Florio has suggested ending the state-run system of inspecting vehicles for safety and emission control equipment, turning the work over to licensed service stations (as is done in most states).

"Publicization": From time to time, legislators introduce bills for public takeover of a function when they are dissatisfied with private management decisions or prices. Last year, legislators unhappy with high air fares within California proposed the state start its own airline, Golden State Air. The bill was serious enough to be reported out of committee in the Senate. The supporters' campaign used T-shirts featuring the state animal (the California bear) and the slogan, "Smash the Fare! Ride the Bear." Amid concerns over socialism and doubts over state competence to manage existing functions, much less new ones, the bill failed on the Senate floor.

Proposals for the states to manage insurance activities have an inconsistent history. About a decade ago, Kansas established a fund for dealing with large medical malpractice damage awards. State officials are now looking for a way to end the function, just as Pennsylvania and New Jersey have ended parallel funds for auto insurance. But last year, California established a new state-run plan for earthquake insurance.

Selling Assets: In his late January deficit-reduction plan, newly-inaugurated Governor Weld announced Massachusetts would raise $390 million from the sale of assets, $90 million during the fiscal year ending in June. Details weren't settled, but press speculation picked out many of the transactions contemplated and suggested that some might not be consummated and, if consummated, might not be consummated on the schedule assumed in the deficit reduction plan. Included were federal purchase of land for a court house and surplus land on mental hospital sites. He also announced another $140 million would come from "sale of certain land and water rights." This was reported to be a transfer of a reservoir from the state to a state authority. Cash would flow to the state from the authority and to the authority from the purchasers of its water. A similar transaction might be undertaken with the Massachusetts Port Authority by which it would buy a state-owned office building and then charge state agencies rent for continuing to occupy it. Sale-leaseback of office space was also considered along with simply borrowing money secured by state buildings, which Weld views as comparable to taking a home equity loan.

By the time the legislature acted on FY 1991 budget balancing legislation, the proposals had narrowed to a sale under $100 million. A reluctant legislature provided the authorization, including waivers of bidding and related procedures for state asset sales, but wouldn't give the governor the power to make the sale to the state's industrial facilities authority. The rest of the asset sales will probably be considered as the FY 1992 budget is debated.

The New Jersey budget contains no new taxes and only one major revenue raising measure -- a $400 million sale of existing roads to the New Jersey Turnpike. New York City officials have considered asset sales to balance their budget for the past several years. One of the New York City proposals this year is to sell the land under the city's major airports. Albany County (NY) has been pushing a similar plan. In his 1990 campaign, the unsuccessful Republican candidate for governor of New York advocated selling the New York City airports, the Port Authority of New York and New Jersey, and the Triborough Bridge and Tunnel Authority.

Government Competition With The Private Sector: In a broad sense, many state-financed activities are in competition with the private sector. Public schools and state universities compete with private schools, state-subsidized transit competes with cars and taxis, state mental health institutions compete with private clinics and doctors, and more. There is also competition in a more narrow sense -- a state-run activity with private sector competitors. The Business Coalition For Fair Competition (1725 K St., NW, Washington, DC 20006) has been pushing legislation in individual states to limit commercial-type activities of state government. The types of activities that are of concern include university bookstores, state-run- resort hotels at state parks, and the activities of prison industries.

Privatization And State Employment: Even the most decisive privatization and facility closing measures don't necessarily work a permanent reduction in state labor forces. In West Virginia, which began its massive budget-cutting efforts after the inauguration of Governor Caperton in early 1989, there hasn't been enough money to permit major new state initiatives that would expand employment. But there have been hospital closings and liquor stores have been turned over to the private sector. The results were a reduction of 6% in employment in the first year, but an increase of 0.7% from January of 1990 to January of 1991. Per employee payroll has increased by 16.6% from October of 1988 to January of 1991.

SCHOOL FINANCE EQUALIZATION

Introduction: New Jersey and Texas illustrate the potential of school finance equalization decisions to complicate the finances of nearly every state. In a nutshell, New Jersey raised state taxes substantially for equalization last year, incurred voter wrath over how the legislature handled school finance and taxes, revised the school aid plan this year, and still isn't protected against either voter wrath or another adverse court decision. In a nutshell, Texas raised a tax and changed its school aid formula to deal with a court decision, had its revised formula thrown out by the state supreme court, developed a new school aid plan this year, had the revised formula rejected in the legislature, and now is likely to raise taxes to deal with equalization.

WHAT IS EQUALIZATION?

To keep it simple, consider only three school districts, with one pupil each, but with differing local tax base per pupil -- one district at the state average, one twice the average, and one half the average. The districts each levy a property tax at 1% of the market value of property and receive state aid of $2,000 per pupil. Their finances are:

Total Revenues Per Pupil In Three Districts

Source of Revenue	Poor	Average	Rich	Total
State Aid	$2,000	$2,000	$2,000	$6,000
Local Property Tax	1,000	2,000	4,000	7,000
Total	$3,000	$4,000	$6,000	13,000

A child in the rich district gets $6,000 worth of education while, though taxpayers pay the same tax rates, a child in the poor district gets only a $3,000 education. The essence of the equalization decisions is to require that the state make these per pupil spending numbers substantially equal when local taxpayers made substantially equal efforts, as measured by their local tax rates.

Litigation is at some stage in at least half the states. More will likely be added as those interested in education spending see these demonstrations of the power of litigation to induce higher state support of school spending. The basis of litigation is the differing provisions of state constitutions, but litigation is a possibility even in states with past court cases indicating their state constitutions don't require equalization. Litigation is underway in Alabama, even though the state constitution doesn't have an education provision parallel to those in other states. Because of changing definitions of equalization, litigation is even possible in states (e.g., California and New Mexico) that have equalized by prior criteria.

Increasing State Aid As A Solution: The courts haven't mandated how much be spent on schools, only that a student's educational opportunity (as measured by the spending in his district) not be a function of the richness (tax base per pupil) of where he lives. Thus, states could move toward equalization by terminating state aid to rich districts and concentrating it on poor ones. This approach would require the richer districts to increase local taxes sharply or make major cuts in their spending, so the approach hasn't been popular.

The traditional approach, evidenced by what Texas did last year, is to provide level funding ("hold harmless") to the richer districts or even a small increase while providing significantly larger increases to the poorer districts. This approach is expensive for the state. It took a tax increase in Texas and the plan included projections of future

increases in aid that are likely to require another increase in the future. The approach doesn't provide complete equalization but often has provided enough progress toward equalization to satisfy the courts. This was the hope in Texas.

MOVING TOWARD EQUALIZATION

With about a 16% increase in state aid, the disparities in per pupil spending can be reduced substantially if assistance is concentrated on the poor districts. But the rich district still enjoys a substantial advantage.

Total Revenues Per Pupil In Three Districts

Source of Revenue	Poor	Average	Rich	Total
State Aid	$2,900	$2,100	$2,000	$7,000
Local Property Tax	1,000	2,000	4,000	7,000
Total	$3,900	$4,100	$6,000	14,000

Problems With Equalizing By Added State Aid: The example above illustrates the two basic problems with equalizing by spending more money on state aid. The first is that it is very expensive. Trying to use state money alone to bring below-average districts to average is expensive even in static terms, and even more expensive when the average itself is rising. Equalizing to the very richest district in the state imposes even higher costs. The second problem is that equalizing mechanisms like that chosen by Texas and typically by other states don't achieve complete equalization. As a result, they are vulnerable to further litigation. In Texas, the supreme court rejected the legislature's earlier efforts and set an April 1 deadline for a new plan.

Cutting Aid To Richer Districts: The fiscal pressures on state government combined with litigation on fairness in school finance are leading states to explore ways to eliminate fiscal disparities among districts without using state money. One is to cut the programs that provide more aid per pupil for richer districts than for poorer ones. Certain demonstration programs, involving local ingenuity in preparing applications and/or a local match, tend to do this. So do special programs for the gifted. But these are small items compared with pension funding. Because rich districts tend to have more teachers and administrators in relation to the number of students and to pay staff better, the per pupil pension costs of rich districts are much greater than those of poor districts. So when states pay these costs, as many do, the state contribution per pupil is greater in rich districts than poor ones. Eliminating separate state support of pension and employer Social Security costs (and other benefits in some states) is highly

equalizing. Continuing state sharing of such costs, but putting them in the school foundation (equalization) program has a similar effect.

HOW A FOUNDATION FORMULA WORKS

Most states use some variation of a foundation formula for school finance. The concept is a state guarantee of a minimum school program which can be stated in dollars per pupil or priced based on the number of pupils, the class size, the cost of teachers, etc. From this minimum is subtracted a local effort requirement, typically a tax rate times the local tax base. A rich district may raise so much from the stipulated tax rate that it is "out of formula" and entitled to no state aid. A poor district will have a smaller local effort subtraction than an average one and thus get more state aid. Depending on the state, many costs like pupil transportation, special education, educational quality programs, teacher retirement, and more may be "above the line," that is provided with no consideration of local revenue raising ability. Putting such costs into the formula subjects their costs to the subtraction of the local effort requirement which makes no difference to districts "in formula" but costs "out-of-formula" districts. Raising the local effort requirement reduces the state aid for all districts, but reduces it the most for rich districts.

While the mechanism is much more complex, another highly equalizing approach is to raise the minimum property tax in the traditional school aid formula. Statewide, that move raises the amount of school spending to be paid with local dollars. The savings are then used to increase the per pupil costs of the minimum education program. Even if no added state dollars were provided, the shift would provide more state aid to poorer districts and reduce funding to rich districts -- whose local effort requirement goes up more than average. For example, the South Dakota House has already approved a minimum levy requirement.

Many of the measures that cut aid to rich districts are under discussion this year. In Florida, the proposal is a decategorization of state school aid. In Massachusetts and Pennsylvania, governors' proposals would put some elements of pension costs into local cost responsibility and away from direct state reimbursement.

The inherent political problem with these measures is that they tend to force the districts affected into choosing between cutting back school programs and going to local voters for increased taxes. This is, of course, exactly the effect they are supposed to have for equalization purposes, but the voter reaction isn't favorable, if New Jersey is an example, and the reaction from administrators and teachers certainly isn't. In the revisions this year, New Jersey reversed itself on some of these policies.

Making Rich Districts Less Rich: The equalization problem arises from a disparity of tax base among districts. Instead of helping the poor by giving added money, another approach is to make the rich less rich, potentially using the resources to aid the poor. Put another way, instead of leveling by building up all surrounding land to the height of the hill, why not skim down the hill and use the excess dirt to fill any valleys?

This approach is to reduce the "excess" tax collecting abilities of the rich districts. Choices: (1) taking away some local revenue and giving it to other districts, a politically unpopular Robin Hood device generally avoided, (2) a statewide property tax (or its equivalent) as used in New Mexico and discussed seriously (as a regional tax) in Texas, and (3) sharing some portion of the tax base such as: (a) large chunks of business property as in Mississippi, (b) new business property shared regionally as in Minnesota's Twin Cities area, or (c) some portion of property growth shared statewide. The statewide distribution of growth is being pushed in Michigan by some key legislators and the governor. Ohio's governor has expressed interest as a way of dealing with litigation just getting underway.

Developments In Texas: Working under the April 1 state supreme court deadline, Texas legislators have been laboring over new school finance methods. The changes being considered are designed to provide each Texas school district nearly equal dollars per pupil from equal local tax rates. The substance of the change is to create what amounts to a statewide property tax, while avoiding the constitutional constraint against such a tax. To take the money discretely from the more affluent districts, regional taxing districts would be established.

After approval by a conference committee, the measure failed in the House. This puts the state at risk of having the school aid distributions enjoined after the deadline or having the courts write and implement a new school aid formula. Though some Texas legislators worry about these possibilities, either would be extraordinary for an elected state supreme court. The more likely possibility is that school finance issues will be revived in the legislature, perhaps in conjunction with the budget when it is considered this summer. The result is likely to include both a major revision of school finance and of state finance, as many Texas leaders believe the combination of the rejection of the lottery, the school finance issue, and the regular budget will require a tax increase -- perhaps even adoption of an income tax.

STATE FINANCES: PAUSING FOR DECISION?

Momentous Decisions? Is 1991 the year of decision for Americans as they finally face issues of how much public service they want and are willing to pay for? The theme can be overemphasized and is a little broad for **Reports**, which likes generalizations more closely

grounded in facts. But this year in the larger states, the broad choice is between holding the line on taxes and significantly cutting services or holding the line on services and significantly raising taxes.

The tax increase alternative is unacceptable to many elected officials. Many have explicit and recent campaign commitments on the subject. Many fear voter reaction. Many are positive that raising taxes will only lead to raising spending, which they believe can be curtailed without harming essential services. Many believe all these things.

The spending alternatives actually before elected officials aren't soft choices like cutting waste and abuse. They are choices that involve denying raises to state employees and teachers, pushing more costs onto property taxes, eliminating cash assistance for those who can't work or can't find jobs, cutting access to state universities through higher tuition and/or enrollment caps, and other equally difficult policies.

Because the issues are complex, the locus of decision in many different states, and the issues obscured by mechanical views like costs of keeping the doors of state government open, they aren't much noticed as a national phenomenon. Even though the state decisions on tax increases in 1991 are likely to result in a bigger bite on the nation's taxpayers than the much discussed federal increases of 1990, they will draw much less attention -- again because the decisions are decentralized and not made all at one time. But with the federal government committed by last year's budget agreement to stable policy, the decision on whether the nation does more or less in education and particularly social services is now being made in the state capitols.

Avoiding The Choices: In many large states, the spring is a period of doing nothing, or not very much. In many states, the legislative reaction to governors' proposals has been negative. Legislators in California don't like the governor's proposed cuts in education and human services. Legislators in New York and Massachusetts aren't comfortable with local aid cuts. Michigan and Illinois legislators have reservations over combining local aid cuts and state mandates of property tax relief. Texas legislators don't like the fiscal constraints of the Legislative Budget Board's budget, nor the legal constraints the state supreme court is putting on their school finance decisions.

One reaction is to let time pass, waiting for the situation to gel. This is consistent with waiting for late spring final revenue estimates, as is the custom in California and some other states. But lack of decision on what strategy to pursue is also a factor. This is particularly apparent in New York, which is scheduled to act more rapidly than other states because its fiscal year begins in April rather than July. On March 19, the New York Times assessed the situation this way: "Unwilling to approve many of the proposed cuts offered by Gov. Mario M. Cuomo, but lacking a politically palatable

alternative, the state's legislative leaders seem to have adopted a wait-and-see attitude."

Cash Pressures: New York fiscal guru Felix Rohatyn attributes fiscal inaction, at least in New York, to the absence of a fiscal crisis comparable to the one in 1975 when financial markets refused to loan New York City money. As he puts it, "The good news compared to the 1970s is the money won't stop tomorrow, but the bad news is that the money won't stop tomorrow." For 49 states, cash is not a problem -- often inconvenient to raise, sometimes expensive, but available. The hurdles against borrowing aren't financial, but governmental -- constitutional prohibitions against borrowing, inability to get legislative majorities to support borrowing because cash is seen as fiscal discipline, etc. If they need cash, most states have ample mechanisms to get it if they are willing to follow some of the techniques used by a few states -- delayed payments to vendors, delays in aid to local government, accelerating tax payments, and borrowing from other state funds.

Massachusetts has already run through this list and, unlike all but a few other states, has already borrowed money to cover operating deficits. It now needs money to: (1) repay money already borrowed, (2) finance continuing deficits, and (3) finance capital outlays. The state's bond rating is the lowest in the nation, and thus the interest rates it pays about the highest. Rating agencies are warning that the rating could drop to junk bond (below investment grade) status. The state treasurer is warning that the Bay State is almost out of cash. The measures the legislature has taken or is considering, regardless of their merits, read like a list of what to do to lower a bond rating: (1) repeal a tax -- the sales tax on services -- without replacement revenue, (2) stretch out payments on existing debt, (3) lower contributions to an underfunded pension plan, and (4) borrow money indirectly by selling assets and then leasing them back.

MISCELLANY

Corporate Income Taxes: Flanked by New Jersey's governor and its commerce commissioner, the head of Bristol-Myers Squibb announced that the firm will build a $100 million pharmaceutical complex in the Garden State, rather than sites it had considered in Indiana and Pennsylvania. The company president cited several reasons for the selection including the fact that the site was next to the company headquarters and the state's regulatory cooperation. There were no special tax concessions and the company president noted Indiana has lower taxes but said "taxes are only one consideration." The governor, predictably, touted the decision as did the commerce director. He cited New Jersey's "formidable" position relative to competitor states based in part on the corporate income tax rate and reminded the audience

that New Jersey didn't raise corporate taxes in its tax increase package last year.

Table 6 shows the tax rate applicable to an additional dollar of earnings by a large corporation in the 50 states as of March 1991. Among the states potentially competing for the facility, there are contradictory trends. In Connecticut, the governor has proposed a decrease while Pennsylvania's governor has proposed an increase. In most states, there is no consideration of corporate rate adjustments, up or down.

In at least some situations, corporate income tax increases aren't objected to by major business organizations. Examples are education quality measures in Kentucky and Mississippi and a plan to improve vocational education by increasing the corporate rate by 0.5% that is passing the Arkansas legislature with the support of the state chamber, the manufacturers' association, the business council, and other business groups. The Illinois state chamber fought strongly against the "temporary" personal and corporate tax hikes enacted two years ago, but supports renewal now that they are due to expire.

Table 6: Corporate Income Tax on $100 of Added Income

Rank	State	Amount	Rank	State	Amount	Rank	State	Amount
1	Connecticut	13.80%	18	Idaho	8.00%	35	Florida	5.50%
2	New York	10.35	19	Iowa	7.92	36	Colorado	5.30
3	Rhode Island	9.99	20	Wisconsin	7.90	37	Louisiana	5.28
4	Minnesota	9.80	21	Nebraska	7.81	38	Mississippi	5.00
5	Massachusetts	9.50	22	New Mexico	7.60	39	South Carolina	5.00
6	New Jersey	9.42	23	Maryland	7.00	40	Utah	5.00
7	Alaska	9.40	24	North Carolina	7.00	41	Illinois	4.80
8	Arizona	9.30	25	North Dakota	6.93	42	Missouri	4.29
9	California	9.30	26	Montana	6.75	43	Indiana	3.40
10	West Virginia	9.30	27	Kansas	6.75	44	Alabama	3.30
11	Ohio	9.20	28	Oregon	6.60	45	Michigan	2.35
12	Maine	8.93	29	Hawaii	6.40	46	Nevada	0
13	Delaware	8.70	30	Arkansas	6.00	47	South Dakota	0
14	Pennsylvania	8.50	31	Georgia	6.00	48	Texas	0
15	Kentucky	8.25	32	Oklahoma	6.00	49	Washington	0
16	Vermont	8.25	33	Tennessee	6.00	50	Wyoming	0
17	New Hampshire	8.00	34	Virginia	6.00			

Gambling: The spread of legalized gambling continues. Georgia's lottery will be on the 1992 ballot and lottery proposals are under serious consideration in other states. Deadwood (SD) gambling operations have proved a serious tourist draw, stimulating proposals in neighboring states to provide something similar. Iowa's riverboat gambling began on April 1, with the first Illinois competitor scheduled to sail in July. Iowa has made the decision that when the Mississippi

River isn't navigable, gambling will continue with operators "simulating" a cruise. Illinois has opened the door to joint promotions with tie-in advertising with United Airlines in a "Cash 'n' Fly" lottery game with tickets and cash prizes.

Public Opinion: Recent polls in several states suggest that the public continues to prefer sales to property or income taxes. Above any of these, people prefer taxes they don't perceive themselves as having to pay -- particularly taxes on corporations, the rich, smokers, and drinkers.

A February California Poll found 59% of respondents believe that state and local taxes are "somewhat high" (26%) or "much too high (33%), up slightly from 55% that picked one of these two categories five years ago. Asked to pick from three alternatives as a temporary way to relieve the state's deficit, 57% found a half-cent sales tax acceptable, 40% found a 10% income tax increase acceptable, and only 29% found a 10% property tax hike acceptable.

A higher education group surveyed Missouri residents, finding majority support for a tax increase for higher education if it would lead to various improvements listed in the question. When the question was phrased in terms of specific taxes, the support was highest for the corporate income tax (66%), sales tax (52%), sales tax on services (34%), and personal income tax (34%).

The University of Connecticut recently surveyed a sample of Connecticut residents on their attitudes toward the governor's plan to adopt a new income tax while lowering sales and business taxes. About 75% said the income tax debate misses the point, with the real issue being what citizens can afford to pay. Asked, "Assuming the same amount of additional money would be raised, would you prefer an income tax, prefer raising other taxes instead, or do you not prefer either alternative?" 40% opted for neither, while 29% took the income tax and 20% took unspecified other taxes. But they didn't like available budget cutting alternatives much. There was 58% support for "reducing state aid now given to wealthier towns," but only 47% for laying off state workers, 42% for canceling cost-of-living increases for state workers, and only 34% for canceling cost-of-living increases for people on welfare.

A similar poll in Massachusetts in February found 70% support for drastic cuts in state government but less support for specifics: 56% for furlough for state workers, 61% for increasing state employee contributions to health insurance, 64% for deferring raises for state workers, 63% for higher transit fares, 63% for limiting general assistance, and 55% for eliminating the higher education board of regents. But only 46% supported (44% opposed, rest don't know) laying off 6,000 state workers and only 16% wanted to close some state colleges.

TECHNICAL NOTES

Education: For an upbeat description of how much new is being proposed for education in the governors' budgets, see Governors' Weekly Bulletin (3/1).

Alternatives To Incarceration: The U.S. Department of Justice, Office of Justice Programs, performs exactly the clearinghouse, statistics gathering, and research leadership functions that state officials often urge as an appropriate minimum federal role in many areas of domestic policy. The information on boot camps and electronic monitoring comes from the agency's NIJ Reports (Nov./Dec. 1990), but with a phone call or letter to the agency, state officials can get citations to studies, statistics, descriptions of programs, and more. The data on Table 3 come from the National Council on Crime and Delinquency (685 Market St., San Francisco, CA 94105).

Privatization: The General Accounting Office (Washington, DC 20548) report (Private Prisons: Cost Savings and BOP's Statutory Authority Need To Be Resolved) was issued in February. The report includes an inventory of private prison facilities and a review of studies of the concept. The Privatization Committee of the Public Employee Department, AFL-CIO (815 16th St., N.W., Washington, DC 20006) keeps track of privatization issues around the country with results published in its Privatization Update. For anecdotal summaries of how the Chelsea school experiment is going, see "Not A 'Miracle' Cure," Newsweek (9/17/90) and "The Lessons Learned When College Officials Run Public Schools," New York Times (7/11/90). The Table 5 data come from The Preservation Of Excellence In American Higher Education: The Essential Role Of Private Colleges And Universities (Education Commission of the States, 707 17th St., Denver, CO 80202). The Privatization Council publishes Partnership Focus, a monthly magazine dealing with privatization issues.

There is no shortage of books on privatization. John Donahue (Harvard), The Privatization Decision (Basic Books, 1989) argues the key issue is not private or public provision but making sure that competition is provided. Also see Lawrence Finley (ed.), Public Sector Privatization (Quorum Books, 1989), Randall Fitzgerald, When Government Goes Private (Universe Books, 1988), Lester Salamon (ed.), Beyond Privatization (Urban Institute, 1989), E.S. Savas, Privatization: The Key To Better Government (Chatham House, 1987), and Joan Allen and others, The Private Sector In State Service Delivery (Urban Institute, 1989).

School Finance Equalization: For a summary of the legal principles in the equalization cases, see Thomas Stubbs, "After Rodriquez: Recent Developments In School Finance Reform," The Tax Lawyer (Fall 1990).

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IN THIS ISSUE

Many states have "balanced" tax systems, with roughly equal reliance on income, sales, and property taxes, but many don't. The balance concept explains many of this year's state tax debates.

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How much to pay doctors and hospitals remains a major issue in all states. State reimbursement levels are generally below those paid by the federal government and private insurance companies, but there are many pressures to raise reimbursements.

o Medicaid Reimbursement Policy p. 6

Hiking personal income tax rates wasn't high on governors' priority lists for raising money, but interest may be growing. Top bracket rates are an issue in many states.

o The Personal Income Tax p. 9

Confronting spending they consider excessive with no obvious way to make cuts, many state officials are looking to task forces and experts. Past results of such efforts cast doubt on future performance.

o Studying How To Save Money p. 12

A survey of governors' budgets shows state fiscal problems to be serious. They have worsened since the governors submitted their proposals.

o State Finances p. 16

Miscellany deals with block grants, borrowing, cross subsidies, farm states, furloughs, local finance, legislative staffing, financial problems in Massachusetts, pension funds, Rhode Island's problems, state budget practices, and tax increases. Technical notes indicate data sources and provide a special table on where states get their money.

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April 1991 (Second of Two April Issues)

THE BALANCED TAX SYSTEM

Introduction: Most states finance state and local spending through a combination of three major taxes: (1) income, (2) property, and (3) sales. Other income sources -- fees, federal aid, severance taxes, fines, interest earnings, and more -- also contribute. The three taxes are the mainstay of state-local finance, except in extraordinary circumstances like Alaska's ability to rely on oil wealth. But a few states do without a sales tax, ten do without a personal income tax on wages and salaries, and many states differ from national patterns in how much they rely on each of these sources.

The Concept Of Balance: The concept of a "balanced tax system" has received considerable attention in state tax discussions. The notion, which varies slightly depending on its proponent, is that states should use the property, income, and sales tax bases in roughly equal proportion in their revenue raising. The theory is most closely associated with John Shannon (Urban Institute), who pushed it while with the Advisory Commission on Intergovernmental Relations.

Arguments For Balance: There are substantive tax policy arguments for the concept in terms of fairness to taxpayers in differing circumstances, stability of revenues, and other traditional tax policy criteria. The economic development argument is that to maintain "adequate" or "likely" spending patterns without using all three taxes about equally means that the taxes that are used will have extraordinarily high rates. Thus, they will become a "sore thumb" for development purposes. The stability argument holds that over-reliance on income taxes will impart too much instability to state and local revenues, a problem which can be reduced if property taxes are a substantial part of the revenue mix.

Table 1 presents the percentage of total revenue from the three major taxes that is raised from each of the three. The data, which cover state and local governments, were calculated by **Reports** from a newly released Census Bureau report, Government Finances In 1989.

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Table 1: Percent "Big Three" Tax Collections From Each Tax, FY 1989

Property Taxes			Sales Taxes			Income Taxes		
Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	New Hampshire	71.9%	1	Nevada	74.9%	1	Delaware	63.6%
2	Wyoming	62.9	2	Washington	68.6	2	Maryland	44.0
3	Montana	52.2	3	Tennessee	67.0	3	Massachusetts	42.3
4	Alaska	51.8	4	New Mexico	64.4	4	Oregon	41.1
5	Oregon	48.9	5	Louisiana	60.5	5	North Carolina	39.4
6	New Jersey	46.1	6	Florida	59.2	6	New York	39.2
7	South Dakota	45.0	7	Alabama	57.1	7	Kentucky	38.0
8	Texas	44.7	8	Texas	55.3	8	California	36.7
9	Nebraska	43.9	9	Mississippi	54.0	9	Alaska	36.0
10	Connecticut	43.0	10	Hawaii	52.7	10	Ohio	35.9
11	Vermont	42.4	11	South Dakota	52.0	11	Michigan	34.5
12	Rhode Island	40.5	12	Oklahoma	51.9	12	Virginia	33.8
13	Michigan	40.4	13	Arkansas	51.1	13	Minnesota	33.6
14	Kansas	38.6	14	Arizona	47.6	14	Pennsylvania	33.4
15	Iowa	38.3	15	North Dakota	47.0	15	Hawaii	32.9
16	Colorado	37.3	16	West Virginia	47.0	16	Wisconsin	32.4
17	Illinois	37.3	17	Missouri	46.5	17	Georgia	32.3
18	Wisconsin	37.1	18	Kentucky	43.2	18	West Virginia	32.0
19	Florida	36.9	19	South Carolina	42.8	19	Idaho	31.4
20	Maine	36.1	20	Utah	42.3	20	South Carolina	31.0
21	North Dakota	35.1	21	Connecticut	40.4	21	Montana	30.7
22	Arizona	34.4	22	Illinois	40.4	22	Missouri	30.2
23	Massachusetts	34.0	23	Indiana	40.0	23	Arkansas	29.8
	United States	**33.0**	24	Georgia	39.4	24	Iowa	29.7
24	New York	32.3	25	Idaho	39.2	25	Maine	29.6
25	Virginia	32.3	26	North Carolina	38.8	26	Alabama	29.4
26	Minnesota	32.3		**United States**	**38.4**		**United States**	**28.6**
27	Indiana	31.4	27	Wyoming	37.1	27	Indiana	28.6
28	Washington	31.4	28	Colorado	37.1	28	Rhode Island	27.5
29	Pennsylvania	31.2	29	Kansas	35.5	29	Utah	27.0
30	Utah	30.7	30	California	35.5	30	Oklahoma	26.4
31	Ohio	29.9	31	Pennsylvania	35.3	31	Kansas	25.9
32	Idaho	29.4	32	Nebraska	34.5	32	Vermont	25.8
33	Georgia	28.3	33	Maine	34.3	33	Colorado	25.6
34	California	27.8	34	Ohio	34.2	34	New Jersey	23.7
35	Mississippi	26.8	35	Minnesota	34.1	35	Illinois	22.3
36	Maryland	26.8	36	Virginia	33.8	36	New Mexico	21.6
37	South Carolina	26.2	37	Rhode Island	32.0	37	Nebraska	21.6
38	Nevada	25.1	38	Iowa	31.9	38	Louisiana	19.4
39	Tennessee	25.0	39	Vermont	31.8	39	Mississippi	19.1
40	Missouri	23.3	40	Wisconsin	30.5	40	Arizona	18.0
41	North Carolina	21.8	41	New Jersey	30.1	41	North Dakota	17.8
42	Oklahoma	21.7	42	Maryland	29.2	42	Connecticut	16.6
43	West Virginia	20.9	43	New York	28.4	43	New Hampshire	11.6
44	Louisiana	20.1	44	Michigan	25.0	44	Tennessee	8.0
45	Delaware	19.5	45	Massachusetts	23.7	45	Florida	3.9
46	Arkansas	19.0	46	Montana	17.1	46	South Dakota	3.1
47	Kentucky	18.8	47	Delaware	16.8	47	Nevada	0
48	Hawaii	14.3	48	New Hampshire	16.5	48	Texas	0
49	New Mexico	14.0	49	Alaska	12.3	49	Washington	0
50	Alabama	13.5	50	Oregon	10.1	50	Wyoming	0

There is no single rigorous definition of what constitutes balance in a tax system. The national average mix among the three taxes is 38% sales taxes, 33% property taxes, and 29% income taxes. If balance is defined as not relying on any one of these taxes for more than 40% of revenue from the three together, nor using any one for less than 20%, the states with balanced tax systems are: California, Colorado, Georgia, Idaho, Iowa, Kansas, Maine, Minnesota, New York, North Carolina, Ohio, Pennsylvania, Virginia, and Wisconsin.

Current Balance Issues: There are major efforts underway in many of the states showing the least balance on Table 1 to provide more balance. Of course, the rallying cry is not "We need a balanced tax system." Instead, the cry is typically a concern that a particular tax is too high in terms of ability to pay and relative to competing states.

Of the 13 states on Table 1 with greater than 40% property tax reliance: two (Alaska and Wyoming) rely heavily on resource taxes not shown on the table, two (Nebraska and New Jersey) have raised other taxes to reduce property tax reliance, one (Oregon) has a new property tax limit likely to force increases in other taxes, and another (Michigan) has a limit proposal pending. Other taxes were increased in Rhode Island and are likely to be in Vermont to avoid a deficit and pressures on local finances. Major income tax proposals are pending in Connecticut, Texas, and New Hampshire.

Change is less likely in the 13 states with more than 50% sales tax reliance. Major reform proposals in Louisiana and Washington have been defeated in the past and are on hold this year. Nevada is adopting a payroll-type tax. Tennessee and Texas are considering income taxes. But a sales tax increase was adopted in Arkansas and is the current favorite revenue raising idea in South Dakota. In the four states with over 40% reliance on the income tax: (1) little change is expected in Delaware, (2) the governor proposed increasing the income tax in Maryland, but the proposal was rejected in the legislature, (3) the sales tax was extended to services in Massachusetts, but the concept was repealed before implementation, and (4) Oregon is considering a sales tax.

Arguments Against A Balanced Tax System: One argument against a balanced tax system is that certain states don't need all the money that using all three taxes would provide. One of the reasons is high reliance on non-tax revenues such as hospital charges, university tuition, and fees for state services. Table 2 shows the percentage of state and local revenue (excluding federal aid) received from such charges, interest, and sundry other payments.

Table 2: Non-Tax Charges As A Percentage Of Own-Source Revenues, FY 1989

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Alaska	59%	18	Tennessee	33%	34	New Hampshire	28%
2	Wyoming	49	19	Colorado	33	35	Michigan	28
3	New Mexico	43	20	Oklahoma	32	36	Ohio	27
4	North Dakota	41	21	South Carolina	32	37	Virginia	27
5	Louisiana	39	22	Indiana	32	38	Missouri	27
6	Delaware	38	23	Texas	32	39	North Carolina	27
7	Mississippi	37	24	West Virginia	32	40	Wisconsin	26
8	Alabama	37	25	Georgia	31	41	Rhode Island	26
9	Florida	35	26	Iowa	31	42	Pennsylvania	26
10	Utah	35	27	California	31	43	Hawaii	25
11	Montana	34	28	Idaho	31	44	Maine	24
12	Nebraska	34	29	Kansas	30	45	Maryland	24
13	South Dakota	33	30	Washington	30	46	New Jersey	24
14	Kentucky	33	31	Arkansas	29	47	Illinois	23
15	Oregon	33	32	Arizona	29	48	Massachusetts	23
16	Nevada	33		**United States**	**29**	49	New York	22
17	Minnesota	33	33	Vermont	28	50	Connecticut	21

At a time when elected officials are under great pressure to avoid tax increases while funding current programs, non-tax revenue sounds like an attractive alternative. In some states, particularly Massachusetts, considerable effort has gone into dealing with a low ranking on the counterpart of Table 2 for previous years.

However, the top-ranked states have two linked characteristics that most states can't match. They have revenues from public lands associated with resource development. Alaska leads the pack with oil royalties that exceed $2,000 per year per person. They also often have large trust funds capitalized by tax revenues and royalties from resource exploitation. From these trust funds, they get interest and dividend income -- a major non-tax revenue that less favored states don't have.

The other argument against balance is simply a preference for a particular tax or taxes and an aversion for others. For example, Oregon officials have asked voters to approve a sales tax many times, but they have rejected it. Many Southern states have historically maintained low property taxes with little sentiment to raise them and considerable concern that they are too high already. The status of states without income taxes is discussed in a separate article in this issue.

MEDICAID REIMBURSEMENT POLICY

> Thirty-seven states will spend more on Medicaid than they originally budgeted for fiscal 1991. Until this program is brought under control, state budgets are likely to remain in a state of severe stress and governors will be forced to scale back or abandon other program initiatives.
>
> Nat. Assn. of State Budget Officers, Fiscal Survey

> As New York struggles through a fiscal crisis, its ever-expanding Medicaid program, already the most expensive in the nation, has emerged as discouraging proof of just how profound and intractable the state's budget problems are.
>
> Elizabeth Kolbert, New York Times

Introduction: Fiscal problems have brought more attention to the issue of how much states should pay for health services under the Medicaid program. There are as many issues as there are types of providers, but most of the attention and money is associated with physicians, hospitals, and nursing homes.

Current Practice: As a general rule, states can pay providers any price that the states and providers agree upon. In practice, this has meant that the states have set the prices. Some providers accept them and serve Medicaid patients. Some don't. When enough don't, problems arise such as a shortage of nursing home beds and difficulty in finding maternity care in rural areas. Some providers, particularly hospitals, are subject to various federal requirements that they not turn away patients for economic reasons, but there are widespread allegations that these requirements are often avoided. In any case, they don't apply to non-critical cases.

One mechanism appearing in many state budgets this year is a freeze on reimbursement rates. In a few cases, governors have proposed lowering rates to reduce the rate of increase in Medicaid spending. For example, such a reduction is included in the Illinois governor's budget. The concept isn't new. Experiencing fiscal problems in 1986, Texas reduced its payments to 90% of scheduled payments. The proportional adjustment is now 94.5%. The most striking reduction this year was the 20% reduction in physician reimbursement in Michigan, which was accompanied by similar reductions to certain other providers but not hospitals.

Recent court cases involving hospitals indicate they may have a right to "reasonable" reimbursement. Michigan and several other states have reached agreements with their hospitals to avoid more costly results they fear from litigation. Nursing homes are seeking to work the same angle.

The federal guideline for reimbursements for physicians and providers generally is that payments be sufficient to enlist enough providers so that Medicaid beneficiaries receive covered services, at least to the extent they are available to the general population in their geographic area. This relatively loose guideline is being urged by some state social service agencies as a basis for avoiding reimbursement rate cuts for physicians.

Differing State Practices: Table 3 is a comparison of the Medicaid reimbursement rates for a visit to a doctor who has been seen before (so the costly process of developing a patient medical history isn't involved).

Table 3: Medicaid Reimbursement for Doctors Office Visit, 1989

Rank	State	Amount	Rank	State	Amount	Rank	State	Amount
1	Alaska	$45.00	18	New Mexico	$20.31	35	Delaware	$17.94
2	Massachusetts	41.00	19	Minnesota	20.00	36	Kentucky	17.77
3	Nevada	29.38	20	New Hampshire	20.00	37	Nebraska	17.70
4	Tennessee	27.00	21	Iowa	19.84	38	Oklahoma	17.50
5	Indiana	26.80	22	Utah	19.65	39	Missouri	17.00
6	Florida	25.00	23	Connecticut	19.50	40	Wisconsin	16.88
7	Georgia	25.00	24	Idaho	19.50	41	North Dakota	16.70
8	Kansas	25.00	25	Texas	19.50	42	Michigan	16.60
9	Arkansas	24.75	26	Virginia	19.00	43	Mississippi	15.00
10	Colorado	24.40	27	Ohio	18.91	44	Louisiana	14.28
11	Washington	22.62	28	Montana	18.84	45	New Jersey	14.00
12	Alabama	22.50	29	Oregon	18.81	46	Illinois	12.65
13	Hawaii	22.40	30	California	18.40	47	New York	11.00
14	North Carolina	21.88	31	Pennsylvania	18.00	48	West Virginia	10.00
15	Maine	21.25	32	Rhode Island	18.00	49	Arizona	n.a
16	Maryland	21.00	33	South Carolina	18.00	50	Wyoming	n.a
17	Vermont	21.00	34	South Dakota	18.00			

The median state pays just under $20. The rates for 38 states fall in the range between $15 and $25. Alaska pays a much higher rate, $45, while West Virginia pays only $10. The difference is conceivably explainable by differences in price levels and state financial condition. Not easily explained are different payments in Massachusetts ($41), New Jersey ($14), Illinois ($12.65), and New York ($11.00).

Contrasts With Medicare: Another approach to comparing physician reimbursement is to relate the Medicaid reimbursement to the Medicare reimbursement, as is done on Table 4. Medicare rates are set by the federal government, using an elaborate logic that seeks to capture differences in costs and prevailing prices in each area of the country.

Table 4: Medicaid Physician Reimbursement As Percent of Medicare

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Arkansas	120%	18	Oklahoma	78%	35	Maine	62%
2	Georgia	112	19	Texas	77	36	Michigan	62
3	Alaska	106	20	Idaho	76	37	Ohio	60
4	Indiana	102	21	Wisconsin	76	38	Missouri	57
5	Nebraska	99	22	North Dakota	75	39	Connecticut	56
6	Massachusetts	94	23	Montana	74	40	Rhode Island	55
7	North Carolina	93	24	Virginia	73	41	California	54
8	Tennessee	92	25	Alabama	72	42	Maryland	51
9	Iowa	91	26	Florida	71	43	Pennsylvania	51
10	Utah	89	27	Vermont	71	44	Delaware	50
11	Minnesota	86	28	New Mexico	69	45	Illinois	48
12	South Dakota	85	29	Washington	69	46	New Jersey	40
13	Colorado	81	30	New Hampshire	67	47	West Virginia	35
14	South Carolina	81	31	Louisiana	66	48	New York	30
15	Hawaii	79	32	Mississippi	66	49	Arizona	n.a
16	Kansas	79	33	Oregon	66	50	Wyoming	n.a
17	Nevada	79	34	Kentucky	63			

The table indicates that physicians are less well reimbursed for Medicaid patients than for Medicare patients, typically getting only about three-fourths as much for the Medicaid patient. There doesn't appear to be any particular regional pattern in the rankings of the states.

Consequences of Low Fees: The most obvious consequence of low fees is to reduce the cost of the Medicaid program. But for physician fees, there may be adverse consequences, such as making it harder for Medicaid recipients to get care in a doctor's office. This may discourage care, but may also redirect some care to more expensive providers.

Policy Change? It would cost on the order of $1.3 billion to raise Medicaid physician reimbursements to the Medicare levels. Besides wanting to avoid this cost, legislators may feel that physicians, who earn on average over $100,000 a year, may be adequately compensated, even if not from Medicaid. A direct or indirect federal mandate of higher reimbursement is a possibility, although other Medicaid mandates may interest Congress more. State decisions reflect the continuing trade-off between the scope of services provided, the persons eligible for service, and the reimbursement to providers. In broader perspective, the decisions reflect the trade-off between Medicaid and other programs and between all programs and tax levels.

As with other aspects of health care, there is considerable suspicion that attempts to trim costs in one area result in the same or higher costs appearing elsewhere. In the case of physician reimbursement rates, the immediate consequence is reduced physician

participation. In New York, with its $11.00 per visit rate, second lowest in the country, only about 25% of physicians regularly treat Medicaid patients. This is believed to be one reason why many New York Medicaid recipients use high-cost hospital emergency rooms for their routine health care visits.

THE PERSONAL INCOME TAX

Introduction: Income taxes are one of the most contentious issues of state policy. Four states -- Nevada, Texas, Washington, and Wyoming -- don't use them for either corporations or individuals. But they are a mainstay of state revenue structures in most states, particularly the 40 that tax personal income of all types -- salaries and wages, dividends, and interest.

Income Tax Reliance: Table 5 shows the states with the highest and lowest reliance on income taxes by comparing the revenue received by state and local government from income taxes (corporate and personal) with the total receipts from income, sales, and property taxes. {All states are shown in Table 1.}

Table 5: Income Tax Revenues As Percentage Of Revenues From Big Three Taxes
Selected States, FY 1989

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Delaware	63.6%	8	California	36.7%	44	Tennessee	8.0%
2	Maryland	44.0	9	Alaska	36.0	45	Florida	3.9
3	Massachusetts	42.3	10	Ohio	35.9	46	South Dakota	3.1
4	Oregon	41.1		**United States**	**28.6**	47	Nevada	0.0
5	North Carolina	39.4	41	North Dakota	17.9	48	Texas	0.0
6	New York	39.2	42	Connecticut	16.6	49	Washington	0.0
7	Kentucky	38.0	43	New Hampshire	11.6	50	Wyoming	0.0

Three of the states in the top ten on this table have high reliance on income taxes because they make no use of the sales tax. Alaska, Delaware, and Oregon have no general sales tax, though they do have selective excises on some goods like motor fuel and tobacco products. Many of the states in the bottom ten have no income taxes or limited ones like Tennessee which taxes dividends, interest, and corporate income, but not wages and salaries.

Income Tax Burdens: The state income taxes have different structures. Some -- like those in Illinois and Pennsylvania -- have low flat rates with almost no exemptions and deductions. Others -- like those in California and Iowa -- have graduated rates and extensive exemptions and deductions. As a result, no single statistic adequately compares state tax levels. Two standard statistics, covering both state

and local income taxes, are tax effort (States In Profile, Table D-19) and income taxes as a percent of personal income (Table D-11).

New York has the highest income taxes by both criteria. A scheduled reduction has only been partly implemented because of the state's fiscal problems.

Top Bracket Rates: Top bracket rates are of interest from several perspectives. From one, a high top bracket rate combined with low bottom bracket rates and generous personal exemptions is indicative of an appropriately progressive tax system that taxes in accord with ability to pay, yet raises enough to finance adequate service levels. From another perspective, high rates are economic red flags that discourage business from locating and expanding in a state. Arguably, high rates also encourage individuals to get out while working if they can, otherwise, when they retire. Top bracket rates for Table 6 are defined as the added state tax due on an additional dollar of income earned by someone who already has income of $100,000.

Table 6: Top Bracket Marginal Personal Income Tax Rates, March 1990

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Hawaii	10.00%	18	South Carolina	7.00%	35	Louisiana	4.14%
2	California	9.30	19	Wisconsin	6.93	36	Missouri	4.14
3	Oregon	9.00	20	Nebraska	6.92	37	Alabama	3.45
4	Vermont	8.68	21	Ohio	6.90	38	Indiana	3.40
5	Rhode Island	8.52	22	Iowa	6.89	39	Illinois	3.00
6	Maine	8.50	23	Arizona	6.50	40	Pennsylvania	2.10
7	Minnesota	8.50	24	West Virginia	6.50	41	Alaska	0
8	New Mexico	8.50	25	Utah	6.46	42	Connecticut	0
9	North Dakota	8.28	26	Massachusetts	6.25	43	Florida	0
10	Idaho	8.20	27	Georgia	6.00	44	Nevada	0
11	New York	7.88	28	Kentucky	6.00	45	New Hampshire	0
12	Delaware	7.70	29	Virginia	5.75	46	South Dakota	0
13	Montana	7.59	30	Kansas	5.15	47	Tennessee	0
14	Arkansas	7.00	31	Colorado	5.00	48	Texas	0
15	New Jersey	7.00	32	Maryland	5.00	49	Washington	0
16	North Carolina	7.00	33	Mississippi	5.00	50	Wyoming	0
17	Oklahoma	7.00	34	Michigan	4.60			

Local Income Taxes: Most states don't permit local income taxes, but they are a major factor in a few. Maryland counties and the City of Baltimore have piggyback taxes that are half of the state's tax. New York City's top bracket rate is 3.4%. The highest local tax is Philadelphia's at 4.96% for residents in all income brackets and 4.31% for commuters. Pittsburgh residents pay 2.875% while many smaller Pennsylvania communities have a 1% tax. Detroit has a 3% tax with smaller Michigan communities at 1%. One percent is also the rate in Birmingham, Kansas City, Newark, and St. Louis. Ohio municipalities have

differing rates, mostly 2%. Kentucky allows a 2.2% tax in Louisville and Lexington. Portland (OR) has a rate under 1%.

Changes In Rates: In a year with almost no interest in state tax cuts, rates shown on Table 6 aren't likely to come down. Last year's interest in dropping Hawaii's highest-in-the-nation rate has been sapped by fiscal problems. So about the only rate-dropping prospects are in states with no sales tax that might sweeten adopting one with an income tax cut. This could happen sooner or later in Oregon, but property tax cuts get the first call on funds for tax relief.

Higher top bracket rates are on the standard list for public employee organizations seeking higher taxes to avoid spending cuts and to finance programs in which they are interested. Examples are California and New York, with governors and many legislators opposed in both places. In California, the budget proposal by legislative leadership (D) includes moving the top bracket rate to 11%. An increase in the top bracket rate was part of the governor's plan in Maryland, but was rejected by the legislature in favor of lower spending increases and confining tax change to minor adjustments. Although they haven't been proposed by governors, there is considerable interest in the legislatures in income tax increases in Kansas and Mississippi.

New Income Taxes: No state has adopted a personal income tax since New Jersey in the 1970s. There appears to be a stronger prospect of enactment in at least one state than anytime in the 1980s.

The governors of Connecticut and Tennessee are pushing new income taxes. The Connecticut proposal is being seriously debated, with extending the sales tax base the main alternative. All alternatives assume a mix of major spending cuts and a tax increase. The governor says he will veto any budget package that lacks an income tax. The Tennessee proposal is running into the predicable anti-tax opposition plus strong opposition from another quarter. The governor's plan links the tax with education reform, including switching from elected to appointed school superintendents. The powerful superintendents are seeking to block the package.

In Texas, an income tax is backed by powerful groups, but not the governor. Blue ribbon groups are looking at tax policy and spending levels, with debate over major tax issues unlikely until June. After rejecting one version, the Texas legislature has adopted a school finance equalization plan that increases the pressure for a major state tax increase of some sort.

New Hampshire's governor has said he would veto an income tax. In March, the House sent the leading income tax proposal back to committee by a 188-170 vote. There are several ways to interpret the vote: (1) the tax proposal didn't pass, (2) if it were to pass, the margin wouldn't be large enough to override a veto, and (3) a majority appears interested in the income tax alternative.

STUDYING HOW TO SAVE MONEY

Introduction: This is a big year for special studies of how to save money in state government. There is considerable reason to expect that few changes will result from them.

How The Studies Originate: Candidates for governor often promise they will do their best to cut the state budget. Because such promises are routine, they don't distinguish one candidate from another. So some candidates make more specific promises, such as cutting a specific amount. Governor Finney said she would trim $200 million from the Kansas budget. In his 1989 New Jersey campaign, Governor Florio promised major cuts before he would consider a tax increase.

After inauguration, especially this year, new governors are confronted with budget issues that don't seem to be framed to offer easy cuts. So they often turn to task forces or special studies. In New Jersey, tax increases were proposed and enacted before study results started to appear. In Kansas, the governor has proposed a major tax increase primarily for property tax relief, but promises proposals next year for cuts and a streamlining of state operations.

Studies also originate in the legislative branch. A major effort, labeled performance audits, is taking place in Texas this year. The idea is to use them to explore, and perhaps implement, ways to cut the budget to avoid a tax increase. Connecticut's commission was established coincident with a tax increase in 1989, showing that the legislature and governor were serious about spending cuts and not just relying on tax increases.

Systematic Problems With The Studies: The individuals called upon for these types of studies are typically auditors, accountants, management consultants, and loaned business executives. Their assigned mission is usually associated with concepts of improved management, efficiency, and modern management techniques. It is not normally associated with policy that may drive spending, such as whether states should provide aid to local government or provide free health care to the poor. But those conducting the studies are often asked to provide specific savings recommendations and dollar amounts to be saved. The pressures are on them to come up with big numbers for savings. The dilemma is whether to keep the recommendations narrow and within the expertise of those doing the study, at the expense of low dollar impact, or to make the recommendations broad, risking criticism as reflecting value judgments or, put another way, making political recommendations.

The Connecticut Study: The Connecticut study reflects the outcomes of such an effort. With a total budget of $4.4 million and a year and a half to do its work, the group had much more time and money available than do those conducting most such studies. It overspent its appropriation by about 10% and exceeded its scheduled

duration by about 3%. Most of its work was contracted out, but it had an in-house staff loaned from the policy staffs of the legislature and the executive branch. The commission itself had 23 members, mostly appointed by legislative leaders and the governor. Its main report, Commission To Study The Management Of State Government: Final Report, contains the major recommendations. There are also interim and consultant reports.

Savings Claimed In Connecticut: The Connecticut budget is about $7 billion dollars. The recommended savings shown on the report's summary table are $578 million for FY 1992. The major dollar items are shown in Table 7.

Table 7: Connecticut Savings Recommendations, FY 1992 ($ millions)

Agency	Savings	Agency	Savings
Administrative Services	$111	University Health Center	$33
Higher Education	70	Child Support Enforcement	25
Public Works	60	Corrections	23
Revenue	59	Health Services	20

The savings are, with exceptions involving relatively small amounts, not the kind that could be reflected in lowered appropriations. The eight categories in Table 7 are assessed in the paragraphs below. The recommendations themselves are potentially applicable in all states. They also illustrate how difficult it is to translate such reports into budget decisions in a legislature.

Administrative Services: The big savings in administrative services come at the expense of employees through postponing a pay equity plan, making employees contribute more to the costs of their benefits, and altering the rules by which state employees collect Workers Compensation. A second component is increasing federal Medicaid reimbursement by obtaining certification of a children's facility and faster claims processing.

Higher Education: Extensive reorganization of higher education governance is recommended. But the largest savings appear to come from increases in tuition rates and more extensive tuition-earning use of facilities in the summer months. A $2.4 million savings in FY 1992 is expected from improvement in the higher education budgeting process.

Public Works: The largest saving in public works is selling surplus state property, followed by $21 million in savings from improving capital building and evaluation.

Revenue: The recommendations for the revenue agency are cost-increasing in its budget -- adding personnel, providing new

laptop computers, converting to optical scanning, and more. The savings are increased collections led by $44 million from reducing the backlog of appeals.

University Health Center: The major savings recommendation, which was not adopted by the full commission, was to sell the hospital associated with the university, thereby saving in operating costs and avoiding new capital expenditures. The second largest item was increasing patient charges.

Child Support Enforcement: The report's savings are actually higher collections of child support enforcement money, which is estimated to come from more aggressive establishment of parentage, increased numbers of support order modifications, and greater use of wage withholding.

Corrections: Over half the corrections saving is from the recommendation to prevent an increase in the average time served per prisoner.

Health Services: The largest saving, nearly half the total, is a revenue increase by modifying the current fee schedule. The second largest saving is also a personnel item, $4.5 million at a children's hospital for "review employee retirement benefits."

Assessment Of Connecticut Cost-Savings: The fate of Connecticut budget issues is dependent upon legislative disposition of the governor's recommendation to adopt a new income tax. However, as a lengthy minority report by John Olsen (Connecticut AFL-CIO) points out, many of the commission recommendations are cost shifting. Many of the shifts are to local taxpayers, though local governments would have the option of reducing services (costs) in response to lower state aid allocations. The major dollar example is freezing aid allocations to cities and towns. The minor one is discontinuing what is known as the "resident state trooper" program, by which the state provides police work for small towns -- a service most states don't provide. There apparently is no dispute about the need for the service. So the issue isn't saving money, but which taxpayers, state or local, pay. Olsen cites other examples: (1) shifting to employees through sharing in health costs, (2) shifting to citizens by closing 10 of 18 motor vehicle branch offices forcing citizens to travel farther for licenses and titles, and (3) shifting costs to students through tuition.

New Jersey's Efforts: The major output of the New Jersey Management Review Commission was a reorganization proposal. It was assessed by the managing editor of the New Jersey Reporter (March/April) as being similar to an earlier effort of a prior governor and not necessarily offering cost savings:

> Much of what Florio proposed has been tried before in New Jersey and elsewhere, some of it repeatedly, and in many cases

it has failed. Technical and political obstacles abound. And the administration appears to have made matters worse for itself by throwing up a few of its own. It is already apparent, for example, that the matter of budgetary savings -- cited at the outset as a major objective -- was oversold.

"Governor Florio's goals in proposing these actions are to make government smaller, and, in the short and long run, to save the taxpayers' money," declared the proposed package's lead sentence. But the administration has been unable, despite repeated inquires, to back up that vague promise with even a general estimate. Moreover, since the opening bell, officials have sought to downplay the issue by suggesting they never meant to imply that reorganization by itself would produce a large pot of money.

"The savings are not going to be overly generous," said {the executive director of the commission}. In fact, it is quite possible that reorganization -- depending on how it is designed and carried out -- could actually wind up costing taxpayers more, not less.

The Outlook: Attempts to find cost savings through special studies have had limited impacts on state budgets. This has been true for decades for: (1) the budget-oriented studies covered in this article, (2) the performance audits developed by state and outside auditors, and (3) the government-wide studies undertaken by business groups that have been parallel to the federal Grace Commission.

Many of the studies avoid major policy issues, such as employee pay levels or appropriate amounts of state aid to local government. When they do tackle subjects like these, they don't normally provide new information. For example, as Connecticut officials consider their fiscal crisis of 1991, they are considering recommendations of cutting employee pay by making employees pay more of their benefit costs, of cutting aid to local government, and of increasing university tuition. But these are options well known to officials of states without special commissions, and also known to Connecticut officials two years ago.

Such commissions do, from time to time, appear to impact the management of state operations, such as in internal organization of state activities, the management of operating functions such as license issuance, and the collection of taxes. While changes based on such recommendations may increase revenues, they normally don't provide dramatic reductions in spending.

This is not to imply that state spending can't be cut dramatically. It can be, and is being, cut in some states. But the big money decisions involved are fundamental policy choices that elected officials don't find much easier after reading reports than they did before.

STATE FINANCES

Fiscal Survey: The National Association of State Budget Officers has released its Fiscal Survey Of The States, reflecting the recommendations the governors made in their budgets. Many of the budgets were released in December and January, so the data don't reflect how bad the fiscal situation is currently perceived. For example, the stated budget gap in California has gone from under $8 billion in the governor's budget to over $12 billion in the governor's current estimate.

Summary Fiscal Indicators: The bad news appears in balances, expected revenues, and recommended spending. Balances at the end of FY 1991 are estimated to be 2.0% of spending and $1.5 billion lower than when the FY 1991 budgets were enacted last year. The FY 1992 end-of-year balances are expected to remain at about 2% of spending, well off the 5% that some observers consider a norm.

NASBO calculates that revenue increases of 6.3% are reflected in the FY 1992 budgets, including tax increases of $6.6 billion. {**Reports** predicts tax increases will exceed the $10.3 billion recorded last year by a substantial margin.} The spending increase in the FY 1992 governors' budgets is 4.8%. This would be the lowest rate of increase since FY 1983 when spending actually dropped according to the NASBO estimates.

Current Year Deficits: One of the ways of looking at the extent of fiscal pressure being faced by each of the states is the extent to which their governor's budget reflected a surplus or deficit for FY 1991. For this purpose, the household or federal definition of deficit is the relevant concept -- whether revenues exceeded spending. By state definitions a deficit occurs only if spending exceeds *the combination* of revenues *and balances brought into the year.* For example, Indiana's FY 1991 budget was well in balance by state terms with spending of $5.8 billion amply financed with resources of $5.9 billion. But the state used $300 million of balance drawdown, giving it a tight FY 1992 situation which may result in a freeze on school aid to avoid a tax increase. The surpluses or deficits of each state are shown on Table 8.

Only ten states expect to take in more revenue this year than they will spend. This result is plausible in states with recent tax increases, such as Kentucky and Oklahoma, or unexpected resource revenues, such as Alaska and North Dakota. It is less plausible for the other states, particularly Michigan and Massachusetts which has problems described later in this issue.

Table 8: Surplus Or Deficit In FY 1991 Budgets, Percent of Spending

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Alaska	23.5%	18	Arizona	-1.0%	34	Maine	-3.5%
2	Massachusetts	11.7	19	Florida	-1.0	35	Pennsylvania	-3.7
3	North Dakota	9.6	20	Colorado	-1.4	36	Ohio	-3.8
4	Michigan	4.1	21	North Carolina	-1.5	37	West Virginia	-4.1
5	Kentucky	2.2		**United States**	-1.5	38	Vermont	-4.6
6	New Hampshire	1.8	22	Rhode Island	-1.5	39	Kansas	-4.8
7	Oklahoma	1.3	23	Iowa	-1.7	40	Indiana	-5.1
8	Oregon	0.8	24	Alabama	-2.0	41	Minnesota	-5.3
9	South Dakota	0.4	25	Illinois	-2.1	42	Delaware	-5.5
10	South Carolina	0.2	26	Texas	-2.4	43	Montana	-5.7
11	Arkansas	0	27	New Mexico	-2.6	44	Louisiana	-5.9
12	New Jersey	0	28	Georgia	-2.7	45	Nevada	-6.2
13	New York	0	29	Idaho	-3.0	46	Nebraska	-6.2
14	Virginia	0	30	California	-3.1	47	Washington	-7.0
15	Missouri	-0.1	31	Tennessee	-3.1	48	Hawaii	-7.9
16	Mississippi	-0.2	32	Wisconsin	-3.1	49	Connecticut	-8.4
17	Maryland	-0.9	33	Utah	-3.4	50	Wyoming	-14.9

MISCELLANY

Block Grants: In his budget, the President proposed consolidation of about $20 billion of federal categorical grants into a block grant program with unspecified details. He invited state officials to work out details. In early April, Governor Campbell (SC) on behalf of the National Governors' Association and Speaker Martin (ME) on behalf of the National Conference of State Legislatures presented slightly differing proposals. An Administration spokesperson present at the press briefing indicated general agreement. Both proposals leave out locally oriented programs (e.g., subsidized housing and Community Development Block grants) included on the original Administration list.

Rapid action in the Congress isn't expected. For a plan to be ready for passage, details would have to be worked out to the satisfaction of state officials and the Administration. Then the plan would face probable opposition from some organizations of local officials and some of the interest groups closely identified with the individual categorical programs to be replaced.

Borrowing: State and local borrowing is highly concentrated. A few states, not necessarily the most populous, account for much of the direct state borrowing. Indirect borrowing through state authorities is much heavier by some states than others. Much the same pattern occurs for cities and school districts. Table 9 shows the jurisdictions that borrowed more than $300 million in FY 1990 *and* ranked among the top 40 public bond issuers identified by City & State (4/8).

Table 9: Top Public Bond Issuers in FY 1990 ($ millions)

Rank	Borrower	Amount	Rank	Borrower	Amount
1	New York City	$4,455	16	State of Illinois	$640
2	NY State Dormitory Auth.	3,341*	17	Mass. Industrial Fin. Auth.	640
3	Washington Power System	3,037*	18	NY Housing Finance Agency	613
4	State of Connecticut	2,954	19	State of Wisconsin	604
5	State of California	2,155	20	NY State Energy Auth.	555
6	City of Chicago	1,647	21	Alaska Housing Authority	517
7	NY City Transit Auth.	1,619	22	Mass. Transit Authority	495
8	State of Florida	1,240	23	State of New Jersey	483
9	State of Texas	1,099	24	Ohio Housing Agency	439
10	State of Massachusetts	1,068	25	California Housing Agency	423
11	Denver City and County	993	26	Suffolk County (NY)	377
12	NY Medical Fac. Agency	844	27	State of Pennsylvania	362
13	Mass. Water Resource Auth.	836	28	Washington, DC	351
14	Calif. Health Fac. Auth.	722	29	Orlando Utilities Comm.	332
15	Mass. Health & Educ. Auth.	682	30	State of Washington	306

* Includes Large Refinancing Of Existing Debt.

Of the 30 entities on the table, New York accounts for seven, including two of its local governments. Massachusetts, which ranks 13th in state population, accounts for five and California accounts for three.

Cross Subsidies: Most state subsidies to particular groups occur through the relatively public process of taking money by taxes and distributing it by appropriations. But considerable purchasing power is reallocated through state policy not involving these processes. Examples are hospital costs of the uninsured subsidized in hospital rates, utility costs of the poor in telephone and gas rates, and insurance costs of high risk drivers in auto insurance rates.

Sometimes, a state adopts a process by which the magnitude of these subsidies becomes known, often producing a strong public reaction. New Jersey's JUA charge and Pennsylvania's CAT fund charge in auto insurance were examples, both of which have been dropped. The latest example is the "Link Up Illinois" program. The program subsidized about $7 of the monthly phone bill of 60,000 low-income phone customers through a monthly 15 cent surcharge on other Illinois phone customers. The state utility commission dropped the program in March after it, and the administering phone companies, received thousands of objections.

Farm States: As usual, there are economic uncertainties associated with the agricultural economy. State officials in farm states worry about world market prices, the weather, and the vagaries of federal farm programs. While these factors can produce bad years, the fiscal condition of the farm states is currently better than most of

the rest of the nation. There is no obvious definition of a "farm state." **Reports** related the Department of Agriculture's statistics on the value of farm crops to state population to produce Table 10. It shows relatively low direct reliance on farm sales in all but a few states.

Table 10: Per Capita Value of Farm Crops, 1990

Rank	State	Amount	Rank	State	Amount	Rank	State	Amount
1	North Dakota	$3,276	18	Oklahoma	$365	34	Maine	$153
2	South Dakota	2,387	19	Oregon	365	35	Utah	149
3	Nebraska	2,325	20	Colorado	359	36	South Carolina	142
4	Iowa	2,088	21	California	355	37	Vermont	137
5	Idaho	1,723	22	Hawaii	347	38	Virginia	136
6	Montana	1,133		**United States**	**325**	39	Nevada	130
7	Kansas	1,108	23	North Carolina	297	40	Alabama	121
8	Minnesota	954	24	Louisiana	275	41	Pennsylvania	112
9	Arkansas	697	25	New Mexico	252	42	Maryland	83
10	Wyoming	659	26	Arizona	246	43	West Virginia	65
11	Indiana	538	27	Texas	246	44	New York	50
12	Illinois	505	28	Ohio	241	45	Connecticut	32
13	Washington	488	29	Delaware	210	46	New Hampshire	25
14	Kentucky	463	30	Florida	204	47	Massachusetts	23
15	Mississippi	439	31	Michigan	199	48	New Jersey	21
16	Missouri	405	32	Georgia	197	49	Rhode Island	5
17	Wisconsin	388	33	Tennessee	188	50	Alaska	4

Furloughs: Many of the previously announced state employee furloughs are not occurring. In Rhode Island, which attracted considerable national publicity for the plan for one-day shutdowns of state government, only a few shutdowns occurred. The others will be dropped in favor of a plan negotiated with labor organizations. Workers will not be paid for eight workdays from April through June and will lose pay for another 19 days in FY 1992. But the pay is just deferred, to be recouped as vacation time, personal days, or lump sum payments when the employees leave state service.

Local Government Finance: The Census Bureau recently issued its statistical compilations on local government finances in FY 1989. They show the sharp decline in federal aid for cities and counties over the last decade. The ten year development is shown in Table 11.

The declining importance of federal aid to cities and counties is one of the bases for local objections to the proposal for federal block grants for some of the remaining programs. The state aid shown by these Census statistics would probably decline more, except for two features of the federal statistics: (1) state education aid is counted as aid to cities or counties in the states without separate school

districts and (2) in states with local administration of welfare and Medicaid, the increasing state spending counts as increased aid.

Table 11: Sources of City and County Revenue, Various Years

GOVERNMENT/Fiscal Year	Percentage of Revenue From: Federal	State	Local
COUNTY			
1979	10%	35%	55%
1985	5	30	65
1989	2	31	67
CITY			
1979	12	18	70
1985	7	16	77
1989	4	16	80

The Census statistics provide another way of looking at state-local relations in each state -- how much of the revenue-raising is handled by state governments. Nationally, states raise 55% of this revenue, but there are substantial differences among the states as shown on Table 12.

Table 12: Percent of State-Local Own-Source Revenue That Is State, FY 1989

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Hawaii	82%	18	Washington	61%	35	Missouri	56%
2	Delaware	79%	19	Wisconsin	61%	36	Ohio	56%
3	Alaska	75%	20	Louisiana	61%		**United States**	**55%**
4	New Mexico	75%	21	Connecticut	60%	37	South Dakota	55%
5	West Virginia	69%	22	Utah	59%	38	Arizona	54%
6	North Dakota	67%	23	Indiana	59%	39	Nevada	54%
7	Arkansas	67%	24	Wyoming	58%	40	Tennessee	53%
8	Kentucky	66%	25	Mississippi	58%	41	Illinois	51%
9	Maine	66%	26	Iowa	58%	42	Oregon	51%
10	Rhode Island	66%	27	Maryland	58%	43	Kansas	50%
11	Vermont	66%	28	Virginia	58%	44	Nebraska	49%
12	Massachusetts	65%	29	Minnesota	57%	45	Florida	48%
13	South Carolina	64%	30	Montana	57%	46	Georgia	48%
14	Idaho	63%	31	Michigan	57%	47	Texas	47%
15	Alabama	62%	32	New Jersey	56%	48	Colorado	47%
16	North Carolina	62%	33	California	56%	49	New York	46%
17	Oklahoma	62%	34	Pennsylvania	56%	50	New Hampshire	44%

Legislative Staff Limits: The California Supreme Court has agreed to hear legislative challenges to Proposition 140 without waiting for lower court reviews. The proposition limits legislators' terms and cuts

the legislative branch budget. Written arguments are due by May 1, with oral arguments to follow. Legislators are arguing, among other things, that the voter initiative upsets the constitutional balance between the legislature and other branches of state government.

Massachusetts Miracle: Financial difficulties continue to plague Massachusetts, which currently holds the lowest bond ratings in the nation. Revenue, adjusted for changes in tax law, hasn't been growing at all and is only expected to grow by 0.2% in FY 1992. Spending has been growing, particularly for social and health services. The FY 1991 budget was way out of balance, a problem only partly cured by legislation adopted earlier this year to cut spending and obtain one-time revenue gains.

Elected officials spent much of April dealing with the politically touchy issue of salaries. Concerned that the governor's plans would disproportionately single out lower paid employees, the legislature (D-majority) included language in the FY 1991 budget-balancing bill to reduce the $85,000 salaries of cabinet members. The governor (R) vetoed. The veto was sustained in a party-line vote in the Senate. Now the governor has proposed a 5% pay cut for everyone in state government making more than $60,000, which includes 1,835 state workers.

The state needs a large infusion of borrowed money in late June or early July to meet continuing obligations including a $1 billion payment to local governments. The treasurer wants an enacted FY 1992 budget before going to the rating agencies and bond markets, but some legislators doubt that the legislature can act that fast. As the House Ways and Means Chairman put it, the politics of dealing with nearly a $2 billion deficit in a budget of about $13-14 billion is frightening -- "It's frightening to Republicans. It's frightening to Democrats. It's frightening to liberals, and it's frightening to conservatives." The governor has been critical of legislators for not acting on some of his proposals. He told the Boston Globe (4/6):

> The important thing – is for the legislature to understand that they cannot sit around and play with their food until June 30 and then and only then start to deal with the '92 budget. If we do that, we are not going to be able to go to New York and borrow, and that means the June 30 local aid payment will not be made.

Pension Fund Administration: State pension fund administrators are having a mixed year. The good news is that the financial markets are performing well enough so that investment returns continue to swell assets and generally continue to exceed the returns assumed in the actuarial calculations used to determine employer and employee contributions. The bad news is that those assumed returns are being increased in many states, that costly pension benefit improvements continue to be enacted, and that the funds are being eyed as

contributors to budget balancing plans. Special pension benefits for employees who retire early are one example. Delays of contributions are another. In Massachusetts, the governor is proposing to borrow from the plans to avoid added borrowing in the marketplace.

Texas Retirement System administrators drew the attention of the new state comptroller who introduced the "Silver Snout" award. He plans to award it monthly to state officials with "their noses buried deep in the public trough." TRS won the first award for $700,000 in spending on its headquarters including $235,000 for art, $8,800 for china, and $50,000 of equipment for its exercise room. Less dramatically, but with more at stake, Kansas elected officials are quizzing retirement system officials for losses of $65 million in savings and loans. The governor has appointed herself to the pension board in a move to restore confidence in the system.

Rhode Island Bailout? Faced with an estimated $150 million tab for bailout of state-regulated credit unions and other financial institutions closed earlier this year, Rhode Island officials are looking for the federal government to bail them out with a low interest loan. Chances aren't good. Most states didn't permit operation of such institutions without federal insurance as Rhode Island did. States that did permit them to operate both: (1) don't seem to have major losses and (2) are pushing their institutions into federal insurance. The precedents are state insured S&Ls, industrial banks, and other institutions where the states have covered the losses, including particularly large losses in Maryland, Nebraska, and Ohio. No federal assistance was provided in those cases.

Governor Sundlun and the state's senators got a rough reception from the Senate Banking Committee in mid-April. Senator Garn returned to the federal action on federally insured S&Ls, arguing that 74% of the cost was attributable to state-chartered and regulated institutions, suggested there was pressure for the Congress to end up holding the bag when actions of the state legislatures don't work out.

State Budgeting Practices: Political scientists Edward Clynch (Mississippi State U.) and Thomas Lauth (U. of Georgia) summarize 155 pages of analysis by 15 authors with: "As long as the American states operate with a governor and legislature independent of each other, power over budget decisions will ebb and flow between them." This may exhaust the interest of most readers in Governors, Legislatures, and Budgets: Diversity Across The American States (Greenwood, 1991). The book contains chapters with inconsistently comprehensive coverage of budget politics in the 1980s in California, Connecticut, Florida, Georgia, Idaho, Illinois, Kentucky, Minnesota, Mississippi, Ohio, South Carolina, Texas, and Utah.

Tax Increases: As state budget deliberations moved through April, the number of states likely to increase taxes and the aggregate amount

of the increases continued to rise. Overall, revenue estimates are down and spending estimates are up. As a result, budget gaps are up also.

Not all the increases will occur on regular budget schedules. The sports phrase, "it isn't over till its over," may have particular relevance for state taxes. New York has already passed the beginning of its new fiscal year without acting on taxes. Texas has, in effect, rescheduled its budget session from the regular session in early 1991 until this summer. South Dakota's governor is already talking about a special session to reconsider the sales tax increase that was rejected in the regular session concluded earlier this year.

TECHNICAL NOTES

Balanced Tax System: The tables in the text deal separately with the big three (sales, property, and income) taxes and non-tax revenues. "Other" taxes are significant in some states. They include corporate franchise taxes, gambling taxes, severance taxes, and special levies such as utility and insurance taxes. Texas, for example, relies heavily on a franchise tax, rather than a corporate income tax. Oklahoma receives considerable revenue from severance taxes while Nevada gets much of its revenue from gambling taxes. Table A-1 (next page) provides a comparison of percentage reliance on all taxes.

Medicaid Reimbursements: The new fiscal survey quoted in the text was released in mid-April by the National Association of State Budget Officers (444 North Capitol St., NW, Washington, DC 20001). Elizabeth Kolbert, the New York Times Albany correspondent, used the quoted material as the lead paragraph in her April 14 story, "New York's Medicaid Costs Surge, But Health Care For The Poor Lags." The story suggests just how serious the state's problems have become. The state has about 10% of national Medicaid recipients, but about 20% of the nation's Medicaid costs. About 80% of the Medicaid home health care expenditures nationwide are in New York. While most American cities pay nothing for Medicaid, the New York City local contribution is about $1.6 billion.

The data shown in Tables 3 and 4 are from a recent report of the federal Physician Payment Review Commission. Robert Pear developed the assessment of the physician reimbursement issue for the New York Times (4/2&3). Comparisons of rates per unit of service presume the unit is defined the same from state to state, which is tricky. For example, a separately priced blood test may be common in one state, but not another, as a routine part of many office visits.

Table A-1: Sources of State And Local Tax Revenues, FY 1989

State	Property	Sales	Income	Other
Alabama	11%	50%	26%	11%
Alaska	32%	7%	22%	38%
Arizona	32%	45%	17%	5%
Arkansas	17%	47%	27%	7%
California	26%	33%	34%	6%
Colorado	35%	35%	24%	4%
Connecticut	40%	37%	15%	6%
Delaware	13%	11%	44%	29%
Florida	33%	53%	3%	9%
Georgia	27%	37%	31%	3%
Hawaii	13%	51%	31%	3%
Idaho	27%	36%	29%	5%
Illinois	35%	38%	21%	5%
Indiana	30%	38%	27%	3%
Iowa	35%	29%	27%	7%
Kansas	35%	33%	24%	6%
Kentucky	16%	37%	33%	12%
Louisiana	17%	51%	16%	15%
Maine	34%	32%	27%	5%
Maryland	24%	26%	40%	7%
Massachusetts	32%	22%	40%	4%
Michigan	38%	23%	32%	5%
Minnesota	30%	32%	31%	5%
Mississippi	24%	49%	17%	8%
Missouri	21%	43%	28%	6%
Montana	43%	14%	25%	16%
Nebraska	41%	32%	20%	5%
Nevada	21%	64%	0%	14%
New Hampshire	65%	15%	10%	8%
New Jersey	43%	28%	22%	5%
New Mexico	11%	53%	17%	17%
New York	30%	26%	36%	5%
North Carolina	20%	36%	36%	6%
North Dakota	29%	40%	15%	14%
Ohio	28%	32%	33%	5%
Oklahoma	18%	43%	22%	16%
Oregon	43%	9%	36%	9%
Pennsylvania	26%	30%	28%	13%
Rhode Island	38%	30%	26%	4%
South Carolina	24%	40%	29%	6%
South Dakota	41%	47%	2%	8%
Tennessee	22%	60%	7%	9%
Texas	39%	48%	0%	12%
Utah	29%	40%	25%	5%
Vermont	39%	29%	23%	7%
Virginia	29%	30%	30%	9%
Washington	28%	62%	0%	9%
West Virginia	17%	40%	27%	14%
Wisconsin	35%	28%	30%	4%
Wyoming	43%	25%	0%	31%
United States	**30%**	**35%**	**26%**	**7%**